THE VARIOUS AGENCIES FINANCING SMALL

SCALE INDUSTRIES IN INDIA

1947-1960

A THESIS

SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY IN

PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE

DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BY

TRIBHUWAN PRAKASH GOYAL

SCHOOL OF BUSINESS ADMINISTRATION

ATLANTA, GEORGIA

AUGUST 1961

R= vi T= 92

2
36T

ACKNOWLEDGEMENT

The writer wishes to express his sincere thanks to the following persons who were helpful in the preparation of this thesis: Dr. Akhilesh Dubey, the advisor, for his patience, useful suggestions and constructive criticisms; Mr. John V. Petrof, for his timely suggestions and encouragement during the preparation of this study; Mr. Jessie B. Blayton, Dean, for his guidance and kind permission to present this thesis in July, 1961.

The writer is also very much indebted to his father, Mr. M. R. Goyal, his brother-in-law, Mr. S. R. Agarwale and his friend, Mr. Bhagwat Dayal Mathur, who all helped in collection of latest material on the subject. The writer is also thankful to Mrs. Jessie B. Ebanks and Mrs. H. M. Cameron, who helped in typing of this thesis. Last but not the least the writer expresses his thanks to Mr. Mahesh Chander Jain for his help and encouragement in the preparation of this thesis.

TABLE OF CONTENTS

LIST OF TABLES

DEFINITION OF TERMS

In order to understand the subject of financing of small scale industries in India, the following terms which have been frequently used in the study, should be kept in mind:

Rupee: Rupee (Re) is the unlimited legal tender of India like dollar ($) of the United States of America and pound sterling (£) of the United Kingdom. The exchange rate of rupee to dollar at present is: one dollar equal to Rs. 4.77.

Lakh: refers to 100 thousand or 1/10th of a million

Crore: refers to 10,000 thousand or 10 million.

Indigenous Shroffs: refers to a class of indigenous bankers in India.

CHAPTER I

INTRODUCTION

The importance of small scale industries in India from the point of view of providing employment opportunities as well as for substantially meeting increased demand for consumer goods and helping to spread industrialization in areas of the country which are industrially backward need hardly be stressed. The Directive Principles of State Policy in the Constitution of India have clearly laid down that the operation of the economic system should not result in the concentration of wealth and means of production to the common detriment. What is essential for the economic development on democratic lines is diffusion of sources of power and instruments of production which would release new springs of energy among the people and make them participate actively, in however small a sphere, in the functioning of a planned economy. It is now widely recognized that local autonomy and devotion of economic power are imperative in order to offset over centralization which saps initiative and enterprise. This job is to be performed by the small scale industries. Prime Minister Nehru, in the meeting of the National Development Council, aptly declared that the small scale industries have great potential for providing employment, fostering creative effort and communicating the sprit of technology as well as technological know how to a large number of people.[1]

---

[1] India Economic Newsletter, "Nehru Cites Job of Small Industries," Vol. 1, No. 5 (November, 1958), p. 3.

Definition of Small Scale Industries

It is customary to divide the industrial structure into three sections namely: (1) Large scale industrial units, (11) Medium scale industrial concerns, and (111) Small scale industrial undertakings. The small industrial concern before the war was defined as a unit having capital invested up to Rs. 30,000, and those concerns having capital in excess of that amount were classed as large scale units. In the post war period, however, with the phenomenal increase in the value of capital assets like land, buildings, plants, and machinery as well as in the cost of acquiring and erecting fixed assets, this definition has undergone a change. During this period the small scale industrial unit was considered to be one having a capital investment of not more than five lakh rupees and employing less than fifty workers with power and less than hundred workers without power.[1]

In order to maintain the flexibility in definition and to make the maximum use of the equipment and capital outlay the definition was further revised by the Government of India, in October 1959, to include all those units with a capital investment of not more than five lakh rupees irrespective of the number of persons employed. The earlier condition regarding labor employed (50 with power and 100 without power) has now been waived. The capital investment for the purpose of this definition will mean investment in fixed assets like land, building,

---

[1]Government of India, Second Five Year Plan Progress Report 1958-59 (New Delhi: Planning Commission, 1960), p. 109.

machinery and equipment. Where units are functioning in rented premises the capital valuation of such buildings shall be taken into account in determining the prescribed limit of five lakh rupees, but workers housing and welfare aminities shall be excluded from the capital estimate for the purpose. When calculating the value of machinery and equipment, the original price paid by the owner irrespective of whether they were new machinery and equipment or second hand, will be taken into account. In addition to many other steps that may be taken for the purpose of verifying that the capital investment does not exceed five lakh rupees, an affidavit to this effect has to be submitted to the authorities concerned.

The above definition is subject to applicability of the following conditions:[1] (a) The concessions under the government stores purchase program would continue to be given only to small scale industries that employ less than fifty persons, when using power and less than hundred persons when not using power, per day and having a capital investment of less than five lakh rupees. (b) The rate of interest on loans advanced under the State Aid to Industries Acts would be governed by the capital investment of the small scale industries--it will be 3% to industrial undertakings with a capital investment of up to two lakh rupees, 4½% to undertakings with a capital investment of two lakh rupees to four lakhs and 6% to undertakings with a capital

---

[1]Government of India, Small Scale Industries Organization Report for 1958-59 (New Delhi: Ministry of Commerce and Industry, 1960), p. 2.

investment of more than four lakh rupees. This will not be applicable to industrial cooperative societies, servicing cooperatives and other types of cooperatives engaged in industrial activities. They will continue to get the same facilities that they were getting. (c) As regards to other concessions and facilities preference will be given to units with a small capital investment over the comparatively higher investment units.

This change in definition marked an important turning point in the growth of small scale industries as after the revision a number of small units could employ a large number of workers and undertake a greater volume of production with the same resources in equipment and capital outlay. The revised definition also provides a suitable criteria for the grant of assistance to small units particularly loans, units with a smaller capital investment being given preference over those having a larger capital investment.

Small Scale Industry Distinguished From Village, Cottage, Large Scale and Medium Sized Industries

Small scale industries are distinct from village and cottage industries. Generally speaking village and cottage industries are of traditional nature catering primarily to local markets and are generally associated with agriculture and provide subsidiary employment in rural areas. Small scale industries as opposed to these are mainly located in urban centers as separate establishments. Further the small scale industries can be distinguished from cottage industries in that the former produce goods with partially or wholly mechanized equipment, employing outside labor while the latter involves the operations mostly by hand which are carried on primarily with the help of the members of the family.

The small scale industries are also different from large scale industries which have capital investment in excess of twenty lakh rupees and medium scale industries having capital investment from five to twenty lakh rupees. These classifications are broad and there may be several on the border line between the medium and large scale industries.

Growth of Small Scale Industries In Indian Economy

India was famous for the products of its small scale and cottage industries all over the world till the middle of nineteenth century. With the advent of British rule and decline of princes and "maharajas" who were the chief patrons of those products, India lost this industrial advantage. The British Government gave no protection to these small enterprises and their plight was miserable in comparison to the large industrialists. However, the position improved in the earlier part of this century. There are two factors which are worthy of note. Firstly, their development was concentrated around commercial centers of Bombay, Madras, Calcutta and to small extent to Ahmedabad and Kanpur. Secondly, all types of industries were engaged primarily in producing consumer goods. After the first world war which gave fillup to the industrial development other centres also grew up.

From 1931 to 1939 Indian industries generally suffered a setback due to the economic depression and the conditions in a large number of small and medium industries grew worse than that in comparatively large size units. During the second world war, however, there were special developments which changed the situation appreciably. From 1942 onwards India having become a base for the supply of men and materials to the Allies, there was a phenomenal increase in the demand for all types of goods including essentials. A situation arose in which essential consumer goods were in short supply and import of spare parts, some manufactured goods and intermediate materials consumed by large industries, had completely stopped. This was a challenge and an opportunity for Indian industrialists to come forward. The small industries took advantage of the situation and their number increased. They produced goods ancillary to large industries like spare parts, as well as consumer goods.

In the post war period with the return of normal conditions it appeared that the demand for these goods has been somewhat "forced" during the war period; consumers had been obligated to accept them in absence of goods of the type and quality to which they were accustomed. Though many of these industries were given protection they were still vulnerable because they were unable to produce goods of the required standard; or their cost of production being high they could not compete effectively in prices. In short the whole development of small industries in the abnormal war time period was somewhat haphazard.

Due to the above defects they failed to operate as economic units and were struggling for survival. Besides this they felt difficulties regarding marketing and providing working capital. This situation persisted till the inception of the First Five Year Plan.

After independence the Government of India realizing the vital importance of this sector in the economic development of the country made special efforts for their growth and development. Various boards for the development of small scale industries were set up both at the Central and State levels. At the head is National Small Scale Industries Board which is an advisory body consisting of Central and State government officials, representatives of the Reserve Bank of India, State Bank of India, State Financial Corporations and a number of non officials from industry and trade. The other Central Government agencies are Industrial Extension Service, Small Industries Service Institutes, and National Small Scale Industries Corporation. Besides these Central Government agencies there are several State Government agencies like State Directorate of Industries, State Financial Corporations, etc.

In the First Five Year Plan Government of India spent Rs. 5.2 crores for the development of small scale industries. A much larger allocation in sum of Rs. 61 crores was made for the Second Five Year Plan. Out of it, it is estimated that Rs. 56.3 crores will be spent by the end of Second Five Year Plan. In the Third Five Year Plan the policy of the Second Five Year Plan as to strengthen their position and develop them will be continued. Tentatively a sum of Rs. 107 crores has been allocated for their development.[1]

Importance of Small Scale Industries in Indian Economy

The small scale industries have to play an important role in the country's development program. They form an integral part and continuing element of both the economic structure and scheme of national planning. The primary object of developing small industries in rural areas is to extend the work opportunities, raise incomes and standards of living and to bring about more balanced and integrated rural economy. Their importance to the Indian economy was well stated in the Government of India's Industrial Policy Resolutions of 1948 and 1956. The Industrial policy resolution of 6th April 1948 clearly stated:

> Cottage and Small Scale Industries have a very important role in the National Economy, offering as they do scope for individual, village or cooperative enterprises and means for the rehablitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods.[2]

The Second Industrial Policy Resolution, dated the 30th April, 1956, on small scale industries stated the role of small scale industries in these words:

---

[1]Government of India, Third Five Year Plan - A Draft Outline (New Delhi: Planning Commission, 1960), p. 198.

[2]Government of India, Small Scale Industries Programme of Work for the Third Five Year Plan (New Delhi: Ministry of Commerce and Industry, 1960), p. 8.

> They provide immediate large employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centres of industrial production all over the country.[1]

From the above resolution it is clear that it would be a folly to think that there is no place left for small industry in the modern industrialization. It has been aptly remarked by one of the ministers of the Netherlands that an industrialization which underestimates the basis of private enterprise in medium size and small industry is doomed to failure.[2] Their importance can be well realized from the following functions which they perform: (a) They offer opportunities to men with small means but initiative and skill to set up their own business and conduct it with a degree of independence. (b) They are engaged in processing or manufacturing goods for and offering services like the supply of electric power to limited areas or markets. (c) They are comparatively capital light industries involving less capital investment than those employing completely mechanized mass production methods. (d) They have the equipment and specialized skill to produce varied types of goods, tailored to customer's requirement. (e) They produce consumer's goods like bicycles, agricultural equipment, sewing machines, domestic electrical

---

[1]Ibid., p. 8.

[2]F. J. N. Stades, Report on Small Industry in India (New Delhi: Hindu Union Press, 1960), p. 3.

appliances, builders, hardware, cutlery, domestic hardware, furniture, glassware, sports goods, toys, matches, paints, varnishes and polishes etc. (f) The greatest advantage of small industry in one word is its flexibility. Small industry can expand and decrease, switch over to producing other products with the same equipment, production facilities with little cost and satisfy any special demands of customers. (g) Small scale industries contribution to the national economy in terms of production and employment is substantial even as compared with that of the larger establishments. The committee on finance for the private sector points out that according to the estimates of National Income Committee the value of net output of small enterprises in 1950-51 was of the order of Rs. 910 crores while that of factory establishments was around Rs. 550 crores and the number of workers employed in small enterprises in 1950-51 was about 11.5 million as against 3 million working in factory establishments.[1] The Planning Commission expects that during the Third Five Year Plan additional employment to five million people will be provided. Though these figures include contribution of cottage industries also yet its contribution to employment and production is substantial.[2]

Method of Survey

In writing this study liberal use was made of existing publications related directly or indirectly to the subject. Extensive use

---

[1]Society for Social and Economic Studies, Capital for Medium Small Scale Industries (Bombay: Asia Publishing House, 1959), p. 8.

[2]Government of India, Third Five Year Plan - A Draft Outline, op.cit., p. 199.

has been made of the various reports of the Government of India, on the development, programme and progress of small scale industries. The reports of the International Planning Team (Ford Foundation), The Japanese delegation and F.J.N. Stades of Netherlands have proved very useful in providing a background as regards Government of India's attitudes and policies for the development of small scale industries. The Reserve Bank of India held a seminar on financing of small scale industries in India on July 20-23, 1959. The seminar was attended by the representatives of the Reserve Bank of India, State Bank of India, various commercial and cooperative banks, state financial corporations and officials of Government of India and state governments as well as a few experts who were familiar with the problems of small scale industries. It has recently published the proceedings of the seminar in two volumes. These volumes are standard in the field of finance for small scale industries.

Data gathered from various books, periodicals, newspapers as well as various governmental agencies along with writers' personal interest in and observations of small scale industries and its financial needs, contributed also to the information utilized in this thesis.

The Financial Needs of The Small Scale Industries

One of the serious drawbacks which retarded the progress of the small scale industries in India was the lack of finance. Small industrialists do not have sufficient funds of their own for fixed capital investment nor they can obtain the necessary resources from the institutional agencies, which are doubtful of the ability of such borrowers to repay the loans in time in the absence of a developed market for their products. Shortage of funds affects their ability to install modern machinery and tools to maintain well organized and fully equipped factories. Similarly, they cannot buy and store good quality raw materials or stock their finished products, pack their goods attractively, have any sales organization of their own and furnish security deposits where necessary.

Before considering the financial needs of the small industrialists, it will be helpful to know that: (a) The dearth of capital in medium and small scale industries reflects a general shortage of capital in the country. It is the result of low income level, a small capacity to save and hence a lack of capacity to invest. It is the phenomenon of a vicious circle of low productivity, lack of buying power and absence of the investment incentives. Intially capital was provided by the managing agency houses and later when industries developed profits were ploughed back. Once the undertakings were stabilized on a profitable basis they were able to attract capital from investors. The small entrepreneurs in most cases have taken the entire risk of their industrial enterprise because they wish to retain personal control over the entire management of their individual undertakings. (b) The problem of credit and finance in respect of small scale industries is obviously inter-related to the problem of production, management and marketing of their products. In the words of Mrs. Chandra Shekhar, Chairman of the National Small Industries Corporation Ltd.:

> The small scale units suffered from a number of handicaps owing to the lack of finance, inadequate knowledge of methods of production, inadequacy of factory accommodation, absence of marketing information and marketing facilities, to mention a few.[1]

Usually the capital requirements of industry consists of (a) equity or risk capital, and (b) borrowed capital, though in many small units this distinction is not at times precise. Borrowed capital can be further subdivided into two types - (i) long term loans, and (ii) short term credit.

(a) Equity or Risk Capital. This capital is required generally to purchase fixed assets like land, building, plant and machinery and for working capital. At present this capital is usually provided by the promoters themselves but it proves to be inadequate as the business expands. For these enterprises it is extremely difficult to raise equity capital from the market as the commercial banks are reluctant to grant credit to them. The only agency meeting the requirement of equity capital is the Industrial Credit and Investment Corporation.

(b) Long Term Capital. Small industries require long term loan capital to acquire fixed assets for purposes of expansion, renovation or modernization of their plant and machinery or for acquiring other

---

[1]M. Chandra Shekhar, "Development of Small Scale Industries," Hindustan Times (January 26, 1961), p. viii.

assets like land and buildings. The small units experience difficulties in obtaining long term loans because the value of the fixed assets owned by them is proportionately small, compared to the requirements of long term accommodation.

(c) Medium Term Capital. This capital requirement is for working capital. The requirements for working capital are comparatively larger than the long term loans needed for acquiring fixed assets. With few exceptions the commercial banks and other institutions were reluctant to provide medium term credit to medium and small scale industrial concerns. The various reasons for this reluctance are: (i) Lack of liquidity, (ii) Higher risk element, (iii) The attitude of inspecting authorities of Reserve Bank of India and (iv) Lack of securities to cover the loans.

(d) Trade Credit. The small industrialist needs this credit to fill up the gap between receiving his trade payments and meeting out his trade obligations. The period for which they offer credit for their finished products is generally longer than what they get from the suppliers of raw materials. The result is that the small producer has to provide finance for the purchase of raw materials, goods in process and stock in trade for the "gap" in waiting, which may extend from 2 to 4 months. He can obtain this credit from banks against genuine trade transactions but due to his small size he has to pay high rates of interest. Many businesses have failed due to this deficiency in current finance.

Scope of The Study

The present study is an attempt at a survey of and solution of the problem of financing small scale industries in India. A careful analysis of various agencies supplying the credit to small scale industries will be made. This will be followed by an appraisal of the situation and writer's recommendations to improve the present situation and to place the small scale industries on a firm footing. The various agencies financing small scale industries have been divided as under:

(a) The Government Agencies. This will include the financial help under First, Second and Third Five Year Plans, direct and indirect facilities provided by the Central Government, National Small Industries Corporation, Refinance Corporation for Industry Private Ltd., the State Government under State Industries Act, State Directorates of Industries, State Financial Corporations, etc.

(b) The Private Agencies. In this will be included the commercial banks, cooperative banks and the indigenous bankers.

(c) The Reserve Bank of India and State Bank of India. In view of the leading role played by Reserve Bank of India and State Bank of India a chapter has been allocated to it. Under this the Reserve Bank's guarantee scheme and State Bank's pilot scheme, and integrated scheme of institutional credit will be discussed.

Before the independence, the Indian attitude towards foreign capital was basically one of opposition. However, attainment of independence brought a sharp change in this attitude. Whereas previously foreign capital had been considered detrimental to the economic interest of the country, it was not realized that what was really offensive was not foreign capital but the special privilege it had exercised till then and the special influence it had posed in the determination of economic policy. In the context of the urgent need for initiating a process of industrialization the significance of the scope offered by foreign capital for widening the limitations on effort set by existing scarcity of domestic resources, was appreciated by informal opinion throughout the country. In this thesis therefore, the role of foreign capital in the development of the small scale industries has been discussed.

In this study only financial aspect will be covered for the period 1947-60. Though it is true that problem of finance is interlinked with other problems of small scale industries like lack of technical training, management training, and availability of suitable raw material. Yet in this study only the financial side will be considered. The study has been made with the objective to find how far the various agencies have been able to meet the financial needs of the small scale industries in India, and what steps should be taken to give them more active help. The ultimate aim of such program is to make the small industry sufficiently strong so that it may be able to stand on its own legs and a spirit of industrial enterprise may be developed which alone can be the lasting solution.

Significance of The Study

Inspite of the fact that considerable attention has been paid to small scale industries since independence, it is true that the financial aspect of the small industries was not given due attention and it was rather overlooked. Finance is the life blood of any enterprise. For its success sufficient finance should be provided. This thing becomes all the more important in an undeveloped country like India where there is lack of enterprise and paucity of capital. There have been several efforts in the direction of solving the problem of finance for small scale industries. But all these were made only from one angle. With the exception of the Seminar on Financing of Small Scale Industries arranged by the Reserve Bank of India, there was no effort in the past to consider the overall situation and make a critical study of the various sources of finance and to suggest a coordinated program for meeting this challange of small scale industries. Their importance to the economy of the country can be well recognized from the fact that these industries are looked upon as the only hope to provide employment to India's teeming millions of persons. Keeping this in mind, this study was undertaken to evaluate the part played by the different agencies at present and to make suggestions for the improvement in conditions which will accelerate the economic development of the country. The Indian market is one of the largest potential markets in the world, and if this sector is fully developed, it can stimulate perhaps the greatest industrial revolution ever seen in the world.

CHAPTER II

GOVERNMENT AGENCIES

It is a well recognized fact that one of the main reasons for the lack of industrial development in the small scale sector has been the inadequacy of finance. Small industries have always found it difficult to raise the necessary capital to finance production and to market their products with advantage. In the absence of the value which capital alone can create it has obviously not been possible for these units to make effective use of their resources in men and material. The needs of the small scale sector for short term finance have usually been met by relatives and friends, commerical banks and the money lenders, but the condition under which such loans are made have been oppressive and often killed the initiative of the small entrepreneur. Because of their inability to offer suitable security the capacity of the small scale units for raising medium and long term credit has also been severely limited. It was, therefore, realized that unless credit facilities were afforded to small scale units in substantial measure they were not likely to make any progress. With this end in view several measures were taken by the Central and State Governments during the past five or six years. The second Industrial Policy Resolution, dated the 30th April, 1956, on small scale industries point out the government's policy as to small scale industries in the following words:

The state has been following a policy of supporting cottage, village and small scale industries by restricting the volume of production in the large scale sector, by different taxation, or by direct subsides. While such measures will continue to be taken, whenever necessary, the aim of the state policy will be to ensure that the decentralized sector acquires sufficient vitality to be self-supporting and its development is integrated with that of the large scale industry. The state will therefore concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernized, the pace of transformation being regulated so as to avoid as far as possible, technological unemployment. Lack of technical and financial assistance of suitable working accommodation and the inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organization of industrial cooperatives. Such cooperatives should be encouraged in every way and the state should give constant attention to the development of cottage and village and small scale industries.[1]

Small Scale Industries and Five Year Plans of India

In the first five year plan village and small scale industries did not enjoy the same importance as has been assigned to them in the second plan. This shift in emphasis and importance follows from the objectives, priorities and general character of the two plans. The first plan having been drawn up in the context of shortages of food grain and certain agricultural raw materials like jute and cotton as well as of the economic strain imposed by the war, the position naturally

---

[1]Government of India, Programme of Work for the Third Five Year Plan, op.cit., pp. 9-10.

accorded high priorities to irrigation, agriculture and transport. The importance of village and small scale industries for providing employment especially to the under employed persons in the rural areas was, however, fully recognized and it was clearly stated that the Central Government must give the same attention to village and small scale industries as it had undertaken to give to agriculture. The general approach of the plan was one of rehablitating these industries so as to provide for the rural population, additional employment and opportunities of supplementing their earnings.

The notable directions in which the First Five Year Plan marked a definite advance over the pre-plan position was in making a substantial financial provision for the development of village and small scale industries and in emphasizing the needs for setting up an organization in the Central Government to look after the problems of village industries and to create favorable conditions for action by State Governments, organizations of social workers and village cooperatives. A provision of Rs. 11.94 crores was originally made which was subsequently raised to Rs. 12.34 crores in the States to continue and elaborate the existing programme. Realizing that this provision might not be adequate for ensuring sufficient development in this sector, a further provision of Rs. 15 crores was made at the Centre in the plan of the Ministry of Commerce and Industry.[1]

In the States, development expenditure amounted to Rs. 121.96 lakhs in 1951-52, Rs. 129.07 lakhs in 1952-53 and Rs. 141.89 lakhs

---

[1]Government of India, Report of The Village and Small Scale Industries (Second Five Year Plan) Committee (New Delhi: Planning Commission, 1955), p. 5.

in 1953-54. The expenditure for the year 1954-55 was Rs. 281.13 lakhs.[1]

One of the major recommendations made in the plan was that besides the emphasis on technical improvements research and other measures for improving efficiency, the primary objective of policy should be to provide a field within which each cottage industry might be able to organize itself and in cases of competition between large scale and cottage industry a common production programme should appropriately be formulated. The principle of a common production programme for large scale and small scale industries was accepted.

The second plan places considerable emphasis on the growth of small scale industries both in view of their ability to supply a wide range of goods and in view of their employment potential. The program for village and small scale industries to be carried out during the second plan period was considerably larger than in the first. Problems for the second plan and problems connected with their implimentation have been reviewed by the Karve Committee which was appointed by the Planning Commission in June 1955. The Committee kept the following principal aims in view while making its proposals[2]: (a) To avoid as far as possible during the period of the second plan, further technological unemployment such as occurs specially in the traditional village industries; (b) To provide maximum employment possible during the plan

---

[1]Ibid., p. 6.

[2]Government of India, Second Five Year Plan (New Delhi: Planning Commission, 1955), pp. 431-432.

period through different village and small industries; (c) To provide basis for the structure of an essentially decentralized society and also for progressive economic development at a fairly rapid rate.

To help the village and small scale industries to achieve this the Government adopted an intensive program of development backed by Rs. 200 crores (440 million), or about four times the amount spent in the first plan. Out of this Rs. 200 crores the Central Government has provided Rs.63.3 crores whereas Rs. 136.7 crores is provided by the states. This represented approximately 20% of the Rs. 1094 crores estimated by the Government as the total investment in industry of all sizes.[1] In May 1958 the provision for village and small industries was cut from Rs. 200 crores to Rs. 177 crores. The original and revised industry wise allocation are as given in Table 1 on page 23.

Progress made during the second five year plan by the small scale industries can easily be termed as satisfactory. The Karve Committee's report on village and small industries for the second plan period envisaged the creation of 160,000 new jobs in units in the small scale sector. This target has not only been achieved but has been exceeded.[2]

During the second plan period, out of the Central and State expenditure on development program, about Rs. 19 crores have been spent on productive investment.

---

[1] Joseph E. Stepanek, Small Industry Advisory Services, (Stanford: Stanford Research Institute, 1960), p. 431.

[2] Government of India, Programme of Work for the Third Five Year Plan, op.cit., p. 25.

TABLE 1

INDUSTRY WISE ALLOCATION - ORIGINAL AND REVISED OF FUNDS UNDER THE SECOND FIVE YEAR PLAN (MAY 1958)

Industry	Original	(Rs. in Crores)	Revised
Handloom	36.50		27.03
Small Scale Industries	46.00		44.57
Industrial Estates	15.00		11.60
Handicrafts	12.00		5.05
Sericulture	5.00		4.08
Coir	1.70		1.76
Village Industries	41.80		17.53
Traditional Khadi	19.70		23.66
Amber Khadi	22.30		38.92
Powerlooms			3.70
Total	200.00		177.30

[a]Government of India, Second Five Year Progress Report 1958-59 (New Delhi: Planning Commission, 1960), p. 13.

TABLE 2

EXPENDITURE OF THE CENTRAL AND STATE GOVERNMENTS ON PRODUCTIVE INVESTMENT

State Aid to Industries Act	Rs. 7.42 crores
State Financial Corporation	3.37 "
Machinery on Hire Purchase	2.67 "
Industrial Estates	6.00 "
Total	19.46 crores

[a]Government of India, Programme of Work for the Third Five Year Plan (New Delhi: Planning Commission, 1960), p. 13.

One of the major recommendations of the Second Five Year Plan was the need for survey of small scale industries. In the draft outline of the Second Five Year Plan, it was stated:

> The ill organized state of small scale industry is one of the main reasons for the absence of reliable information in regard to the total capital invested or the total number of workers employed in such industries at present. In fact, a detailed survey has not so far been undertaken to ascertain the conditions and problems of small scale industries as such, and it is essential that the work should be undertaken without delay by the Ministry of Commerce and Industry in clear cooperation with the departments of industries in various states.[1]

The Government of India accepted this recommendation and an office of the Development Commissioner, Small Scale Industries was established in New Delhi on 1st July, 1955, on a pilot basis to work under the guidance of Dr. Eugene Staley of the Stanford Research Institute, California. So far investigation teams have prepared and issued 106 regional Industry Outlook Reports covering about 40 different industries. Areas of survey comprise of the following:[2] (i) Surveys of the selected community project areas. Twenty seven reports on the industrial possibilities of Community Pilot Project areas have been completed and issued. (ii) Surveys of other areas e.g., selected districts, portions of districts, groups of districts or special development areas that form an economically viable unit either from the production, consumption or market point of view. This

---

[1] Ibid., p. 22.

[2] Government of India, Economic Surveys and Information Service (New Delhi: Ministry of Commerce and Industry, 1960), pp. 3-4.

type of survey is becoming very popular and an ever increasing number of requests for such surveys are being reviewed by the Department. The report on twelve areas have up till now been completed and on sixteen is under progress. (iii) Surveys of the centres coming under the Pilot Project Scheme of the State Bank of India. For the purpose of granting loans the Bank requires a study into the credit worthiness of the existing units and their future economic prospects. At the request of the State Bank of India special type of industry surveys were conducted at some selected centres in the Southern and Western Regions. So far twenty one such reports have been prepared and seven are under progress.

While new programs were initiated in the second plan to develop small scale industries and to stir industrial consciousness in the country to a phenomenal degree, the third plan envisages, consolidation, continuance and intensification of these programs.[1] The programs for development of small scale industries during the third plan aims mainly at two things, namely (a) expansion of existing scheme such as extension services, provision of common service facilities, supply of machines on hire and purchase terms, training, economic research and survey etc., and (b) emphasis on the development of ancillary and feeder units. As far as possible development of small scale industries will be linked up with the schemes for the develop-

---

[1]Chandra Shekhar, op.cit., p. 8.

ment of power and an attempt will be made to build up nuclei of small industries within the reach of existing and proposed transmission lines.[1]

The expenditure outlay on the development of village and small industries under the third plan has been provisionally suggested at Rs. 250 crores. The tentative break up of the outlay between different industries is indicated below along with the corresponding expenditures during the second plan period:

TABLE 3

TENTATIVE ALLOCATION UNDER THE THIRD FIVE YEAR PLAN AND ANTICIPATED EXPENDITURE DURING SECOND PLAN

	Second Plan (anticipated expenditure)	Third Plan (tentative all) (Rs. in crores)
Handlooms and powerlooms in the handloom sector	32.1	36.00
Khadi, Amber and village industries	80.5	89.00
Small Scale Industries and industrial estates	56.3	107.00
Handicrafts	5.3	8.00
Sericulture	3.8	7.00
Coir Industry	2.0	3.00
Total	180.0	250.00

[a] Government of India, Third Five Year Plan - A Draft Outline (New Delhi: Planning Commission, 1960), p. 201.

[1] Government of India, Third Five Year Plan - A Draft Outline, op.cit., p. 201.

The above allotment is provisional and is primarily intended to facilitate more detailed work on the preparation of schemes. For this the outlay of Rs. 250 crores by the Central and State Governments will be in addition to such provisions for small industries as may be found within the community development blocks under their separate budgets and the funds provided for the rehablitation of displaced persons, social welfare schemes and the welfare of backward classes etc.

The flow of credit to small scale industries was slow in the beginning of the second five year plan. The tempo of lending gathered momentum recently in 1959-60. During the first three years of the Second Five Year Plan the disbursements of State Directorates amounted to Rs. $7\frac{1}{2}$ crores and that of institutional agencies about Rs. 23 crores. In addition machines worth Rs. 2.6 crores have been supplied by the National Small Industries Corporation under their hire purchase scheme. Roughly about Rs. 33 crores have been advanced. Considering the tempo of lending that is gathering momentum it is estimated that during the remaining last two years about Rs. 25 crores were disbursed by the State Director as well as by institutional agencies. In view of the very rapid development of small scale industries visualized during the Third Five Year Plan and after taking into consideration the tempo of development during the recent past, and the requirements of credit by the existing as well as the newly started units, it is estimated that the net fixed investment and stocks in small scale industries during the Third Five Year Plan period is likely to be between Rs. 300 and Rs. 350 crores in the small scale sector alone.[1] The institutional lending agencies are expected to be more liberal than they have been hitherto, especially in view of the assistance under credit guarantee scheme. Besides, with the various forms of assistance that are being given to the small scale industries and their consequent ability to slowly get into the group of industries which will be considered credit worthy by the lending agencies, the ability of the small industries to obtain the financial requirements through the institutional channels will be much brighter than hitherto when they were depending more on private sources, especially the money lenders.

The Role of The Central and State Governments in Providing Financial Assistance To Small Scale Industries

The Central and State Governments have taken various steps for the promotion of small scale industries through the setting up of a number of coordinating and development organizations like the Small Scale Industries Board, National Small Industries Corporation Ltd. and its four subsidiaries, the State Financial Corporations, Regional Small Industries Service Institute, Refinance Corporation for Industry Private Ltd., etc.

---

[1]Government of India, Programme of Work for the Third Five Year Plan, op.cit., pp. 85-86.

The development of small scale industries is primarily the responsibility of the State Governments. The Central Government however has been playing an increasingly important role not only in planning and coordinating the programs of development in various states but also in supplying finance and technical know how. The Central Government does not lend directly to small units but loans are given to State Governments normally in the ratio of 2:1 i.e. twice the contribution made by the States themselves (except in the case of industrial cooperatives) to assist the small scale industries in their respective states.[1]

Table 4 on page 30 shows the allocation of funds for 1959-60, 1960-61 (provisional) by the Central Government to finance State Governments scheme.

Before the implementation of the new scheme under which the State Governments were to sanction individual schemes according to their own rules and regulations, the State Governments were required to obtain Government of India's technical approval. In accordance with this procedure, during the year 1958-59, the Centre had conveyed technical approval of 143 schemes. During the same period the Centre had also conveyed sanctions in respect of 17 schemes.[2]

---

[1]Reserve Bank of India, Seminar on Financing Small Scale Industries in India (Bombay: Reserve Bank of India, 1960), Vol. II, p. 74.

[2]Government of India, Small Scale Industries Organization Report, op.cit., p. 66.

TABLE 4

CENTRAL GOVERNMENT'S ALLOCATION OF FUNDS TO FINANCE THE STATE GOVERNMENTS SCHEME (RS. IN LAKHS)

State Territory	Credit Allocation for 1959-60	Total Amount (provisional) 1960-61
1. Andhra Pradesh	35.00	45.00
2. Assam	19.00	22.00
3. Bihar	40.00	43.00
4. Bombay	40.00	37.00
5. Jammu and Kashmir	8.61	8.00
6. Kerala	24.00	27.00
7. Madhya Pradesh	35.00	35.00
8. Madras	47.00	50.00
9. Mysore	16.00	16.00
10. Orrisa	26.00	28.00
11. Punjab	48.00	50.00
12. Rajasthan	24.00	25.00
13. Uttar Pradesh	56.00	56.00
14. West Bengal	51.00	54.00
Total	469.61	496.00

[a] Government of India, Small Scale Industries Programme and Progress (New Delhi: Ministry of Commerce and Industry, 1960), p. 72.

Financial Assistance From The State-State Aid to Industries Act

The State Governments provide financial assistance to these industries according to the provisions of the respective State Aid to Industry Acts and/or rules. The object of this act was to provide financial help to industrial units. Only those which could afford to furnish sufficient security could be given loans under this act/rules.

Generally, all the new or nascent industries or cottage industries including those which need revival or development are eligible for help under this act. The State Governments are empowered to provide finance in the form of loans, guarantees for loans raised from banks, subscriptions to shares and debentures and guarantee of minimum return on capital. Besides, provision of raw materials, land and power at favorable rates and supply of machinery are the other ways in which help is given. The period of loan generally varies from ten to twelve years.

The usual procedure for processing of loan applications received under the State Aid to Industries Acts is as follows. The applications are received by the authorities concerned and if they are prima facie eligible, are referred to the District Officer for an on the spot inquiry. If the security offered consists of immovables like land, buildings, etc., they are required to be valued by the District Magistrates or Collectors. After the application is approved, the applicant has to execute the necessary documents which are usually drawn up by the government solicitor, before he could get the funds. The Bombay Government does not charge any fees for preparing documents, etc., while some other states levy a charge for this service. For example, the government of Madras, in cases where the value of building, etc., offered as security exceeds Rs. 10,000 demands a fee equal to 1% of the loan applied for, subject to a maximum of Rs. 250.

The terms and conditions governing the grant of such loans and the procedures that had to be followed before loan could be granted were so complex and involved that it was difficult for a small scale entreprenure to get quick assistance under this act. He could get real benefit only if (a) credit was provided to him on easy and liberal terms and (b) if he got the credit applied for within a reasonably short period.[1] In order to provide these benefits to small industries, the Central Government in 1955 liberalized the terms on which financial aid would be given through the State Governments. They also requested the State Governments to liberalize the terms and conditions on which financial aid would be given through the State Governments. The important features of the liberalized schemes are:[2] (a) loans will be given for working capital as well as for capital expenditure e.g., both for short term and long term requirements. While granting loans, preference will be given to "promotional type" of industries-older types of establishments like rice mills and oil mills being excluded. The outside limit of loans to bonafide small artisans against personal bond will be Rs. 1,000 and against the surety of one or more persons Rs. 5,000. Furthermore, loans will be given against the security of lands, buildings, equipment, stock in trade, and other assets, etc., to the extent of 75% their value.

Industrial cooperatives would get 75% of the share capital as two year loan. Again, 75% of the working capital and investment necessary for the purchase of land, buildings and equipment for an industrial

---

[1]Government of India, Programmes of Work for the Third Five Year Plan, op.cit., p. 79.

[2]Reserve Bank of India, Seminar of Financing of Small Scale Industries, Vol. II, op.cit., pp. 75-76.

cooperative would be given by the Central Government as a loan. But in no case would a single party get a loan exceeding Rs. 1 lakh or an industrial cooperative more than Rs. 2 lakhs without the Central Government's prior concurrence. (b) Loans to State Governments are sanctioned on a 10 year basis and the normal rate of interest is four per cent. The State Governments are supposed to charge a concessional rate of three per cent from individual and two and a half percent from industrial cooperatives. The maximum amount of loans for individual at the concessional rate would be Rs. 50,000 in the case of individuals and Rs. 2 lakhs for industrial cooperatives. The difference between the normal rate charge by the Central Government to the States (i.e. four percent) and the concessional rates to be charged by the States would be made good as subsidy by the Centre to States. The States can utilize the services of other agencies like institutions and banks in disbursing the loans. In such cases where the institutional agencies or banks are utilized, an addition of 2% to rate of interest could be made which will be shared by the Central Government with State Governments. (c) The Central Government will share losses on loans on agreed basis. Where the Central Government has to contribute more than seventy five percent, they would bear only half of the losses. (d) The Central Government shall also contribute 50 percent of the salaries and allowances (excluding travelling allowance) of all additional staff employed by the State Governments, for the purpose of dealing with small industries, for three years in the first instance. (e) Powers to grant the loans will be decentralized.

In pursuance of the above scheme, most of the State Governments have also liberalized the terms and conditions on which they would provide financial aid to small scale industries and industrial cooperative societies. Under the liberalized rules, loans up to Rs. 1,000 are being advanced on personal bonds, up to Rs. 5,000 against security which may include land, buildings, machinery, equipment, stocks and other assets including those created out of the loans, up to seventy five percent of the value of the securities offered. The loans are payable in easy installments over a period of ten years. Recommendations regarding rates of interest have been fully accepted. Powers have also been delegated to District Industries Officers or Field Officers of similar status to approve loans up to Rs. 2,000.[1] Most of the States have accepted the following pattern of delegation of authority though Madras State has gone further down and has achieved very encouraging results:

Assistant Director of Industries or Officers of Similar status under the Industries Department	Up to Rs. 2,000
Deputy Director of Industries or Officers of Equivalent Status	From Rs. 2,001 to Rs. 5,000
Joint Director of Industries	From Rs. 5,001 to Rs. 10,000
Director of Industries	From Rs. 10,001 to Rs. 25,000
State Governments on the recommendations of the Board of Industries	Exceeding Rs. 25,000

---

[1] *Ibid.*, p. 76.

In Madras State the following officers can approve loan applications up to amounts maintained against their designations:[1]

Assistant Director and Village Industries Officers in the Districts	Up to Rs. 2,000
Deputy Directors	Up to Rs. 5,000
Joint Director	Up to Rs. 10,000
Director	Up to Rs. 25,000
Director on the recommendations of the Board of Industries	Up to Rs. 50,000

The working group in their report on the program for the work of Third Five Year Plan have also recommended that the Director of Industries should be authorized to grant loans between Rs. 25,000 and Rs. 50,000 on the recommendation of the Board of Industries and the State Governments on their side may grant loans above Rs. 50,000 on recommendation of the Board of Industries.

Progressively larger amounts are being advanced by the State Governments to augment the resources of small industries. The total amount disbursed during 1956-57 was Rs. 1,52,88,000 and in 1957-58 a sum of Rs. 2,65,00,000 had been advanced.[2] The amount distributed during 1958-59 amounted to Rs. 266.68 lakhs.[3] During 1959-60 the amount distributed under the State aid was over Rs. 300 crores as per detail given on the next page.

---

[1]Government of India, Programme of Work for the Third Five Year Plan, op.cit., p. 82.

[2]Ibid., p. 76

[3]Ibid., p. 81.

TABLE 5

LOANS ADVANCED UNDER STATE AID TO INDUSTRIES ACT
(1959-1960)

		Loans advanced from 1-4-59 to 31-3-1960 (In Lakhs)
1.	Andhra Pradesh	18.04
2.	Assam	.36
3.	Bihar	28.60
4.	Bombay	44.92
5.	Jammu and Kashmir	Report not received
6.	Kerala (up to Feb. 60)	6.93
7.	Madhya Pradesh	12.55
8.	Madras	22.30
9.	Mysore	11.49
10.	Orissa	15.29
11.	Punjab	42.51
12.	Rajasthan	19.00
13.	Uttar Pradesh	67.26
14.	West Bengal	10.70
15.	A & N Islands	-----
16.	Delhi	2.01
17.	Himachel Pradesh	2.00
18.	Manipur	.50
19.	Pondichery	.63
20.	Tripura	.95
	Total	306.04

[a]Government of India, Central Small Industries Organization Report for 1959-60, (New Delhi: Ministry of Commerce and Industry, 1960), p. 69.

The discretionary powers given to junior officers of the State Departments have enabled them to distribute whatever amounts were given to them as a lump sum allocation from the Centre and they have came forward with request for additional amounts. Inspite of all this progress the position is far from satisfactory and the capital needs of the small industrialist are met by the State partially. To further libralize the existing procedure the working group for the program of work for third five year plan has recommended following measures:[1] (a) The District Industries officer who has far too many duties to attend should be given some additional staff specially for dealing with loan applications. These officers should be properly oriented and they should help the small industrialist to fill in the application form correctly and to comply with all formalities. (b) Loans up to Rs. 2,000 should be given to applicants on their personal bonds; for giving loans on personal bond elaborate enquiries need not be made and it would be sufficient if the business reputation of the applicant is established to the satisfaction of the District Industries Officer. The District Industries Officer's performance should be judged not mainly by the care they took to guard against unnecessary risk to public funds but also by the number of loans sanctioned by or through them. (c) With regard to loans for which two sureties are required (for loans from Rs. 1,000 to Rs. 5,000) emphasis should be on the integrity of the sureties rather than of their credit worthiness. (d) With regard to loans above Rs. 5,000 for which a security is required, the procedure for evaluation of the security and grant of a Credit Worthiness Certificate should be considerably simplified. (e) The maximum time the entreprenure may be permitted to return the loan should be 7 years

---

[1]Government of India, Programme of Work for the Third Five Year Plan, op.cit., p. 81.

unless he himself wishes to repay it earlier. (f) The State Governments should have definite programs of publicity to make known to the entreprenures in different corners of the State of the various channels of assistance. (g) To afford relief to the small man who has to pay various charges like stamp duty and registration charges, the question of granting concession in the form of remission of stamp duty by full amount or half the amount and reduction in the charges for valuation and for the legal fees should be considered and adopted. (h) The State Governments should ensure that a constant watch is kept over the proper realization of funds and that the loans are recovered in time.

Besides providing direct credit as above the government provide credit facilities through following institutions.

State Financial Corporations

The importance of setting up State Financial Corporations for financing small scale industries was realized at the time of the enactment of the Industrial Finance Corporation Bill in 1948, when it was thought that the All India Corporation will not be able to cater to the needs of all types of industries, and that its sphere of activities would have necessarily to be confined to large scale industries. Further it was also considered desirable that in case of the State Finanical Corporation, industrial concerns eligible for assistance should include private limited companies and other private enterprises, beside public limited companies and cooperative societies. Accordingly, the State Financial Corporation Act was passed by parliament on September 28, 1951 as an enabling measure under which

State Financial Corporations could be established. The provisions of the State Financial Corporations Act are, broadly similar to those of the Industrial Finance Corporation of India is empowered to:[1] (1) Grant loans or advances to or subscribe to the debentures of industrial concerns. (2) Guarantee loans raised by industrial concerns. (3) Underwrite, subject to certain conditions, the issue of stocks, shares, bonds or debentures by industrial concerns. The recommendation that could be granted to a single industrial concern under 1 and 2 above is limited to one tenth of the paid up share capital of the corporation but not exceeding Rs. 10 lakhs in any case.

There are thirteen corporations at present including the Madras Corporation with an aggregate authorized capital of Rs. 31 crores, of which Rs. 13.32 crores have been paid up. With the establishment of a corporation for Mysore state all the states have now a corporation each, excepting the State of Jammu and Kashmir. Many of the corporations have augmented their resources through the issue of bonds; the total outstanding of bonds issued by several corporations stood at Rs. 6.12 crores at the end of March, 1959.[2]

The State Financial Corporations are authorized to accept deposits from the public. The deposits are repayable only after a minimum period of five years because of the medium and long term nature of the credit provided by the corporations. Besides this the corpora-

---

[1]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. II, op.cit., p. 37.

[2]Ibid., p. 38.

tions are also permitted to borrow from the Reserve Bank against the security of Central or State Governments. Such loans are repayable on demand or at the end of the fixed periods not exceeding 90 days. With the exception of Bombay and Rajasthan Corporations, no other corporation has availed of this facility so far.

To avoid overlapping of assistance provided, the State Financial Corporations donot entertain applications for loans up to the limits granted under State Aid to Industries Act e.g., Rs. 75,000 in the case of Bombay, Rs. 25,000 in West Bengal, and Rs. 10,000 in Kerala, etc.

In view of the significantly lower rates of interest charged by the State Governments in respect of their loans to small industries under the concessional scheme of finance and in order to avoid possible adverse repercussions this might have on the operations of the Corporation, it was approved at the second conference of State Financial Corporations in November 1955, that the Corporation should be empowered to act as the agent of the Government for scrutinizing and sanctioning loan applications received by the Government from industrial enterprises, for disbursing the loans and for collecting and remitting the amounts to government. To enable the corporations to undertake this function, the State Financial Corporation Act was amended in October 1956, empowering the corporations to act as the agents for the Central or State Governments or the Industrial Finance Corporation of India in respect to loans and advances granted, or debentures subscribed by them.

Such agency arrangements are already in operation in the State of Bombay, Andhra Pradesh, Uttar Pradesh and Punjab. Up to 31st March 1959, the Bomaby Corporation had recommended for sanction to the State Government under the agency arrangement, 52 applications for loans aggregating Rs. 21.05 lakhs of which Rs. 3.80 lakhs had been disbursed. As of the same date the Ahdhra Pradesh and Utter Pradesh Corporations had disbursed under the scheme loans to the extent of Rs. 15.25 lakhs and Rs. 30.77 lakhs respectively.

Loans given by the corporations are adequately secured being generally granted on the first mortgage of fixed assets in the form of land, buildings, plant and equipment. The amount of the loans is usually about 50% of the net value of the fixed assets offered as security. The corporations are also empowered to grant loans and advances against the guarantee, as regards repayment of principal and payment of interest, by the State Government or a Scheduled Bank or a State Cooperative Bank. Financial assistance has been rendered primarily for the block capital requirements of industrial concerns and only in exceptional cases, for working capital needs. The period of loans granted for block capital requirements is generally for ten to twelve years. Loans are granted by the corporations on merits after a scrutiny of the technical soundness of the proposals and an examination of the development program put forward by the industrial concerns. The corporations also keep a watch over the progress of the concerns which have availed themselves of loans by obtaining periodical reports from them and through inspection by officials of the corporation.

As regards the rate of interest on loans and advances charged by the corporations, the most usual rate as at the end of March 1959 was $6\frac{1}{2}\%$ per annum, with a rebate of half percent of interest for repayment of installments of principal and payment of interest on due date.[1] A few State Governments viz. Assam, Rajasthan and the Punjab, have been remitting, either partially or fully, stamp duties in respect of mortgages created in favor of the respective corporations.

As at the end of March 1960 the Corporations including the Madras Corporation had sanctioned and disbursed loans aggregating Rs. 4.66 crores and Rs. 2.78 crores respectively. The statement given on page 43 shows the loans sanctioned and advanced by the State Financial Corporations to small scale industries as on 31st March 1960.

From the above statement it is clear that the State Financial Corporations are playing a significant role in providing finances to small industries. To further augment their efforts and to achieve better results the following difficulties which the Corporations experience in dealing with applications for loans from small scale industries should be corrected: (1) The application from small units are generally incomplete and vague. They are reluctant to disclose full facts of their affairs or to take the corporation into their confidence. (2) The application relate to a variety of small scale industries. Statistical data regarding the country's demand, installed capacity, actual production, etc. in respect of their products are seldom available. In the absence of such information, it is difficult

---

[1] *Ibid.*, p. 40.

TABLE 6

LOANS SANCTIONED BY THE STATE FINANCIAL CORPORATION TO SMALL SCALE INDUSTRIES AS ON 31st MARCH 1960

Name of Corporations	No. of Appli-cants	Amount Senc. (Rs. in lakhs)	Amount adv. (Rs. in Lakhs)
Punjab Financial Corp.	117	105.89	56.02
Kerala Financial Corp.	78	59.11	51.94
Bombay Financial Corp.	80	64.90	36.73
Andhra P. Finan. Corp.	85	38.30	27.26
W. Bengal Finan. Corp.	16	32.90	51.31
Assam Financial Corp.	38	32.77	18.14
Uttar Pradesh Finan. Corp.	37	25.83	21.58
Bihar Financial Corp.	35	45.90	26.45
Rajasthan Finan. Corp.	24	20.26	6.66
Madhya Pradesh Finan. Corp.	11	10.95	3.70
Orrisa Financial Corp.	16	10.41	2.01
Mysore Pradesh Finan. Corp.	9	8.00	5.18
Madras Industrial Invt. Corp. Ltd. (25-3-1960)	12	11.23	7.44
Total	558	466.45	278.42

[a]Government of India, Central Small Industries Organization Report for 1959-60 (New Delhi: Ministry of Commerce and Industry, 1960), p. 8.

for the corporations to make a proper assesment of the scope and prospects of an industry. (3) The demand for loans by small units, in the majority of cases, is made for working capital than for block assets. (4) The corporations accept only fixed assets as security for loans and small scale units do not possess sufficient fixed assets to secure the loans required by them. (5) Owners of small units are little known in the markets and it is extremely difficult to obtain reliable information regarding their business integrity. Their resources are also limited and their personal guarantee is in many cases of doubtful value. (6) They do not maintain adequate accounts or records of their financial position. Hence it becomes very difficult for the corporations to assess their financial position. Not only this they are also unable to produce in some cases valid documents including their title to the properties offered as security.

Small Scale Industries Board

On the recommendation of the International Team of Experts sponsored by the Ford Foundation to study the problems of small scale industries in India, the Central Government set up the Small Scale Industries Board in November 1954 for the purpose of advising on the program and work of the different agencies looking after the development of small scale industries in the country.

Set up of the Board. The Board has at present fifty members including representatives of the Central and State Governments, the Reserve Bank of India, non officials, etc. The Union Minister of Industries is the Chairman of the Board. The Board besides coordinating the activities of the National Small Industries Corporation and the Small Industries Service Institutes which have been set up by the Government for assisting in the execution of their policies in the sphere of development of small industries, also reviews at its periodical meetings the work done by the various developmental agencies, discusses such weaknesses as may be located in planning or execution and advises on modifications or improvements. All the states except Kerala, West Bengal and Madhya Pradesh have established similar Boards.

Activities of the Board. The Board and its standing committee have examined a large number of problems faced by the small industries and have taken decisions regarding the action to be taken by the various agencies like the Central and State Governments, Small Industries Services Institutes, etc. Some of the important decisions of the Board are:

(1) Credit Facilities. The Board has further liberalized the terms and conditions of the liberalized scheme evolved by the Government in 1955. It is now possible for small industrialist in most of the States to get loans up to Rs. 1,000 on personal bonds; up to Rs. 5,000 on one or more sureties, and above Rs. 5,000 against the security of land, buildings, plant, machinery, stocks and other assets up to 75% of the value of assets offered as security. The concessional rate of interest payable by industrial cooperatives is $2\frac{1}{2}$% for amount up to Rupees two lakhs while in the case of others, the rate is 3% for amounts up to Rs. 50,000.[1]

As regards increasing the institutional credit facilities the Board has recommended that at least ten percent of the block loans advanced by the State Governments should be routed through the State Financial Corporations. The Board also recommended the utilization of such agencies as Urban Cooperative Banks, State Bank of India and

---

[1] Ibid., p. 83.

other commercial banks for the purpose.

(2) Technical Assistance. Another problem the small industries have to face is the difficulty in securing technical assistance. The technical assistance program approved by the Board is executed by the Small Industries Service Institutes covering a wide field including systematic assessment of the prospects for special kinds of small industries, both existing and potential in different regions of the country, preparation of model schemes for various kinds of industries for the use of State Governments and others, scrutiny of State Schemes, organization of demonstrations and training workshops, mobile workshops, etc.

(3) Government Stores Purchase Program. Another important step taken in assisting small industries has been the Government's acceptance in principle of the Stores Purchase Committee's recommendation that certain classes of stores should be exclusively reserved for purchase from village and small industries and that price differentials should be allowed to them over the products of large scale industries. The State Governments have also been asked to follow the example of Central Government. The value of the tenders secured by small scale industries since the inception of the scheme up to the end of June 1959 amounted to Rs. 3.69 crores.[1]

Besides these major problems the Board also deals with the problem of supplying cheap power, iron and steel raw materials etc., making available machinery on hire purchase basis to small industries

---

[1] Ibid., p. 84.

marketing their products and making arrangements for developing small industries as ancilliaries to small industrial program etc.

The other agencies financing small scale industries are the National Small Scale Industries Corporation and the Refinance Corporation for Industry Private Limited. Though these institutions are not Government institutions and are private institutions, they have been dealt here because they are financed, controlled, and operated by the Government.

The National Small Scale Industries Corporation

Among the important measures instituted by the Government of India to develop an adequate institutional framework for assisting the growth of small scale industries in the country was the establishment of the National Small Scale Industries Corporation Ltd. in 1956. It was set up on the recommendation of the International Team of Experts under the auspices of the Ford Foundation, to assist small scale units in securing Government contracts from the Government Purchasing Agencies and getting the same executed by small scale units by issue of sub-contracts and also by helping them to get direct contracts from such purchasing agencies.

The National Small Industries Corporation was registered in 1955 as a private limited company under the Indian Companies Act with an authorized capital of Rs. 10 lakhs out of which Rs. 2 lakhs were paid up during the year 1955-56 and Rs. 8 lakhs early in 1956-57. The authorized capital and paid capital were later raised on to Rs. 50 lakhs and Rs. 40 lakhs respectively.[1] The entire share capital of the Corporation was subscribed by the Government of India. The Corporation is managed by a Board of Directors consisting of both officials and non officials nominated by Government. The activities of the Corporation are financed by Government.

Though initially the Corporation was set up for persuading Government Purchasing Agencies to place orders with small scale units for supply of stores, the Government entrusted it with various other schemes and the functions of the Corporation have been now widely enlarged. The main function of the Corporation and the divisions to which these functions are assigned at present are found in Table 7 on page 49.

In order to broaden the basis of activities of the Corporation and to derive the benefits of decentralization the following four regional subsidiary corporations were set up in 1957: (1) The National Small Industries Corporation (Bombay) Private Ltd. covering states of Bombay, Madhya Pradesh and Mysore. (2) The National Small Industries Corporation (Calcutta) Private Ltd. covering states of West Bengal, Bihar, Assam, Orrisa, Manipur and Tripura. (3) The National Small Industries Corporation (Delhi) Private Ltd. has jurisdiction on States of Uttar Pradesh, Punjab, Jammu and Kashmir, Rajasthan, Himachel Pradesh and Delhi. (4) The National Small Industries Corporation Madras Private Ltd. covering states of Andhra Pradesh, Madras and Kerala.

---

[1] *Ibid.*, p. 87.

TABLE 7

FUNCTIONS OF THE NATIONAL SMALL SCALE INDUSTRIES CORPORATION

Functions	Divisions
1. Assistance to Small Units in Securing Government Orders.	Government Purchase Division
2. Development of Small Industrial Units as Ancillaries to Large Ones	do
3. Marketing Assistance Including Promotion	Marketing Division
4. Supply of Machinery under Hire Purchase Scheme	Hire Purchase Division
5. Construction and Management of two Industrial Estates, One at Okhla and the Other at Naini Near Allahbad	Industrial Estates Division
6. Setting Up and Running of two Prototype Production Cum-Training Center, one at Delhi and Other at Rajkot	Project Division

[a]Reserve Bank of India, The Seminar on Financing of Small Scale Industries in India, Vol. II, (Bombay: Reserve Bank of India, 1960), p. 87.

The subsidiaries are financed mainly by the parent corporations out of grants and loans received from Government.

The main activities of the Corporation especially in regards to providing directly or indirectly financial assistance will be discussed now. They are: (i) Government Purchase Division. The Directorate General of Supplies and Disposals debarred most of the small scale units from supplying to Government stores. It levied very strict conditions before a small scale unit could be registered as an approved supplier. They are (i) providing bank references (ii) satisfying Inspecting Officers of the D.G.S. & D. about their capacity, both technically and financially, to manufacture specific stores required by Government. The Corporation negotiated with the D.G.S. & D. and was able to get the rules relaxed. As a result of this Regional Liasion Officers have been posted at New Delhi, Calcutta, Bombay and Madras and a list of items which should be entirely reserved for procurement from small scale units has also been drawn up. The following statement gives the data relating to tenders secured by small scale units with the assistance of the corporation:

TABLE 8

TENDERS SECURED BY SMALL SCALE INDUSTRIES WITH THE HELP OF THE NATIONAL SMALL SCALE INDUSTRIES CORPORATION

Year	Value of Contracts (Rs. in Lakhs)
1955-56	4.68
1956-57	1.19
1957-58	62.15
1958-59	256.12
Total	324.14

[a] Government of India, Central Small Industries Organization Report for 1959-60 (New Delhi: Ministry of Commerce and Industry, 1960), p. 95.

(ii) Credit Facilities through the State Bank of India. The Corporation evolved a scheme in 1959 under which the State Bank of India was to provide loans to small scale units against the security of the raw materials. The State Bank of India has agreed to open cash credit accounts for the approved borrowers (small scale units) recommended by the Corporation and to advance such borrowers, upon the security of raw material, amounts not exceeding in each case the value of such security, without maintaining the usual margin between the value of raw materials pledged and the amount advanced.

The Corporation on its part has agreed, in the event of any default by any borrower (recommended by the Corporation), to guarantee reimbursement to the bank on demand sum or sums up to the difference between the actual amount advanced and the amount which the bank would have had normally advanced against the security, subject to the conditions mentioned below: (a) The Bank will exercise its normal and routine scrutiny of the rates mentioned in the invoices or declared by the borrower, to determine the market value of the security offered; and the market value so determined shall be final both for fixing the ceiling of advances as well as the bank's normal advance value. (b) A separate cash credit account will be opened by the Bank for financing completion of each specified order and the guarantee in respect of each cash account will be deemed to have been determined with the completion of the order. (c) The amount advanced by the bank under this arrangement in respect of any one contract shall not exceed at anyone time by more than Rs. 25,000 the amount which the bank would have normally advanced against the pledge of security. (d) The Corporation shall, when recommending any borrower to the bank, specify the raw materials against the security of which the bank may grant credit facilities and the bank will make advance only against the raw material so specified. (e) The Bank will collect from the borrower a surcharge of half percent on the amount of such loan provided that in no case the amount of surcharge realized shall exceed half percent of the limit sanctioned by the bank and all surcharges so collected will be credited to the account of Corporation. (f) The Bank shall not charge interest at a rate exceeding 6% per annum.

At present the Corporation mainly confines its activities to obtaining voluntary agreements from large scale units. It promotes ancillary units around large units as feeders of components and parts at predetermined prices and also deals with such stores which large units would be hesitent to purchase from any particular small unit at predetermined prices. (iii) Hire Purchase Division. The object of the Corporation's hire purchase scheme is to provide small scale units with machines and equipments on easy installment basis. The applicants are required to pay 20% of the value of the machinery as the earnest money. The balance is payable in installments spread over a period of seven years. The industrial cooperatives are required to pay 5% less. For machines the value of which does not exceed Rs. 2,000 only 10% of the value is payable as earnest money. The interest rate is 4½% for any machine valued up to Rs. 15,000 and 6% if the value exceeds Rs. 15,000. For industrial cooperatives these rates are 3½% and 5% respectively.[1] Since the introduction of the scheme in March 1956 up to the end of June 1959, as many as 2,218 applicants covering 9,011 machines valued at Rs. 6.85 crores were accepted by the Corporation. Out of these 2558 machines valued at Rs. 2.15 crores were delivered.[2]

Besides these the Corporation provides indirect assistance to small scale industries in shape of marketing facilities, export promotion facilities and industrial estates.

Refinance Corporation for Industry Private Limited

The Corporation was established in June 1958 with an authorized capital of Rs. 25 crores. The Government of India provided the Corporation the amounts required by it from time to time in form of interest bearing loans and arrange to obtain reimbursement. The total funds presently available to the Corporation including its issued capital are Rs. 38.5 crores.[3]

The management of the Corporation rests in a Board of seven Directors with the Governor of the Reserve Bank as Chairman. Three directors represent the interest of the participating banks, while one of the Deputy Governors of the Reserve Bank, the Chairman of the State Bank of India and the Chairman of the Life Insurance Corporation constitute the remaining directors.

---

[1]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. I, op.cit., p. 92.

[2]Ibid., p. 93.

[3]Ibid., p. 183.

The Corporation was established for relending to private enterprises through the established banking facilities. Loans eligible for refinance by the Corporation must be for periods between 3 and 7 years and the amount of the loan to anyone party under the scheme is not to exceed Rs. 50 lakhs. The Corporation is to provide finance to all the industries whose paid up capital and resources are not less than Rs. 5 lakhs but do not exceed Rs. 2½ crores.

The Corporation's achievements so far are quite encouraging. During the year (from 1st July 1959 to 30th June 1960) the Corporation sanctioned 8 applications for Rs. 1.22 crores as against an amount of Rs. 3.04 crores sanctioned in the previous year. Since its inception in June 1958 up to June 30, 1960 the Corporation received 21 applications aggregating Rs. 1.36 crores.[1] The Corporation is considering to expand its activities on the recommendation of Government of India and U.S. Technical Corporation Mission on the following lines:[2] (a) The extension of the refinancing facilities to a larger number of banks without requiring them to become share holders in the Corporation. (b) The extension of the facilities to a larger number of industries. (c) The removal of the present requirement that member banks should have a minimum spread of 1½% between the rate at which they borrow from the Corporation and the rate at which they lend, thereby giving the banks discretion to fix lending rate subject to the approval of Corporation.

---

[1]Report of the Central Board of Directors of Reserve Bank of India for the Year July 1, 1959 - June 30, 1960, <u>Reserve Bank of India Bulletin</u> (August, 1960), pp. 1121-22.

[2]<u>Ibid</u>., pp. 1121-22.

Non Financial Assistance Provided By The Central and State Governments

The non financial aspect of the small scale industries is equally vital for their development as the financial one. Realizing this the Central and State Governments have taken various steps to help the small scale industries to strengthen their technical and managerial aspect. Some of the important measures are:

(1) Technical Assistance. As the small industrialists and industrial units cannot normally afford to engage the services of skilled technicians or business consultants, the Central Government has extended this service to them by establishing an Industrial Extension Service. The various extension service centres are not intended to be passive units helping only those who approach them for aid but the officers are supposed to tour regularly the areas within their jurisdiction and give them on the spot advice and technical assistance. At present there are 18 such institutes and 50 will be opened in near future.

Those institutes give advice and demonstration to small industrailists on how to improve the production process, use of machinery raw material and equipment, undertake market research, provide information and act as guiding units for preparing model schemes. The table on page 56 will give some idea as to the progress made by the institutes.

These Service Institutes also help in training artisans and managerial personnel of the small units.

TABLE 9

PROGRESS OF SERVICE INSTITUTES
(1956-59)

	1956-57	1957-58	1958-59
1. Number of Factory Visits Paid	15170	19681	27657
2. Number of Parties Given Purely Technical Advice	8108	17978	18710
3. Number of Parties Given Information to Start New Industries	845	3470	7978
4. Number of Parties Given Other Assistance	5182	9967	18649

[a]Reserve Bank of India, The Seminar on Financing of Small Scale Industries in India (Bombay: Reserve Bank of India, 1960), p. 78.

(2) Industrial Estates. A major impediment to the development of small scale industries is their inability to command on their own certain facilities and services such as transport, power, lighting, servicing, etc. The Government found a solution to this problem by establishing Industrial Estates. An Industrial Estate is a well planned unit with the ready built factory space which is let out on rent or sold to industrialists. Industrial Estates may also make provision for establishing banks, post office, etc.

The construction and management of industrial estates has been made the responsibility of the State Governments, the Central Government undertaking to advance the cost of building such estates through long term loans to State Government. In the Second Five Year Plan a sum of Rs. 10 crores was alloted for building Industrial Estates which was later increased to Rs. 11.2 crores. Up to March 1960, 40 estates were constructed and it was expected that the target of 87 for the second plan period will be easily achieved.[1] So far 483 factories have started work, 400 of these factories employ 4956 workers and their estimated annual production is Rs. 4 crores.[2] The Third Five Year Plan has envisaged an outlay of Rs. 50 crores, for the development of industrial estates.[3]

(3) Raw Materials and Imports. National Small Industries Corporation, the State Trading Corporation and the State Government are the main agencies which help these industries in obtaining raw materials and import licenses. State Governments have established raw material depots for small industries. The National Small Industries Corporation, as an experiment has set up a depot at Ludhiana for supplying iron and steel to the small units. This depot has supplied raw materials worth Rs. 23 lakhs till the end of December 1959.[4]

---

[1]Government of India, Report of Subcommittee on Industrial Estates (New Delhi: Government of India Press, 1960), p. 5.

[2]Government of India, Small Scale Industries Programme and Progress (New Delhi: Ministry of Commerce and Industry, 1960), p. 1.

[3]Government of India, Report of Subcommittee on Industrial Estates, op.cit., p. 33.

[4]Government of India, Small Scale Industries Programme and Progress (March, 1960), op.cit., p. 37.

The State Governments also help through the Directorates of Industries in getting import licenses for raw materials and machinery to small industrialist. To avoid delays, the procedure has been much simplified and the Development Commissioner and Directorate of Industries grant them Essentiality Certificate to afford them priority.

CHAPTER III

THE ROLE OF RESERVE BANK OF INDIA, STATE BANK OF INDIA AND FOREIGN CAPITAL

Reserve Bank of India

The Reserve Bank of India as the Central Bank of the country plays a very important role in financing small scale industries. Though under its act of incorporation it is not empowered to provide financial accommodation directly to industries, it renders assistance to them through scheduled banks, State Cooperative Banks and State Financial Corporations.

(a) Scheduled Banks. The scheduled banks for purposes of financing small industries can replenish their resources under 17(2) (a) and 17(4) of the Reserve Bank Act. Under the former provision, the bank is authorized to purchase, sell and rediscount bill of exchange and promissory notes arising out of bonafide commercial or trade transactions and maturing within 90 days from the date of purchase or rediscount, while under the latter, the bank can grant loans and advances repayable on demand or on the expiry of fixed periods not exceeding 90 days against the security of bills, etc. As the bill market is not well developed in India the facilities availed are negligible. The minimum limit of amount advanced on individual bills are Rs. 5 lakhs and Rs. 5,000 respectively.

(b) State Cooperative Banks. The State Cooperative Banks are also entitled to obtain short term credit facilities from the Reserve Bank for financing the cooperatively organized small industries. The bank also grants advances for periods not exceeding 12 months for financing the production or marketing activities of approved cottage and small scale industries against the security of (i) two good signatures one of which should be that of a State Cooperative Bank or State Financial Cooperation and (ii) guarantee by the State Government, in full of the repayment of the principal and payment of interest.

The Reserve Bank has so far approved the making of advances to State Cooperative Banks for financing only Handloom Weaver's Societies. These advances are made at 2½%. During 1958-59 a sum of Rs. 233.91 lakhs was sanctioned by the Bank to State Cooperative Banks as against Rs. 180.19 lakhs in the previous financial year.[1]

(c) The State Financial Corporation. The Reserve Bank of India assists the State Financial Corporation in providing medium and long term credit to small scale industries in various ways. For example it is the principal share holder in each of the 13 State Financial Corporations; its contribution till April 1960 amounted to Rs. 2.25 crores[2]; and its representatives are on the Board of all Corporations and in

---

[1] Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. II, op.cit., p. 109.

[2] B. Venkatappiah, "The Role of the Reserve Bank of India in the Development of Credit Institutions," Reserve Bank of India Bulletin, (January, 1961), p. 21.

some cases in the Executive Committees of the Boards as well. The Reserve Bank is also authorized to inspect these institutions. Besides this the Bank is also empowered to lend to the Corporations for a short period of 90 days against the Government Securities and provide accommodation to State Financial Corporations up to twelve months.

Reserve Bank Credit Guarantee Scheme

With a view to extend increased credit facilities to small scale units, the Small Scale Industries Board in consultation with the Reserve Bank of India has finalized a credit guarantee scheme. The scheme is based on the principle of affording commercial banks a measure of insurance against the possible default in respect of loans granted to small scale industries. The objective of the scheme is to enlarge the scope of institutional credit to small scale industrial units and provides for the sharing of losses between the lending institutions and the Government of India subject to the condition that maximum amount recoverable against the guarantee issued under the scheme in respect of any one advance will not exceed Rs. 1 lakh.[1]

The scheme came into operation from July 1, 1960. Reserve Bank of India has been entrusted with the administration of the scheme as the agent of the Government of India and has been designated as "Guarantee Organization" for this purpose. The entire work will be attended to by the Guarantee Organization Division of the Bank's Industrial Department at Bombay.

---

[1]Federation of Indian Chamber of Commerce and Industry, *op.cit.*, p. 24.

To start with, the scheme is operated in twenty two districts which are designated as approved districts through the State Bank of India and its eight subsidiaries, forty nine commercial banks, twenty two State Cooperative Banks and State Financial Corporations. These districts have been selected on the basis of the relative importance of outstanding loans to small scale industrial units and the potentiality for further expansion of such loans. Banks and credit institutions other than those selected may also avail themselves of the guarantee facility in respect to advances granted by them provided a selected credit institution participates in such advances to the extent of not less than twenty five percent of the amounts thereof. It is also permissible for two or more institutions to grant the advance jointly. However in case of an advance granted jointly by a selected credit institution and a non-selected credit institution, the guarantee organization will deal with only former institutions while in the case of an advance granted jointly by two or more selected institutions, the Guarantee Organization will deal only with one of them which has been nominated by all the institutions for the purpose.

The guarantee facility is available in respect of both working capital loans and loans for the acquisition of equipment and other fixed assets. The guarantee may be furnished in respect of advance to such units repayable on demand or on expiry of a fixed period not exceeding seven years and sanctioned on or after July 1, 1960. In case of advances sanctioned prior to July 1, 1960, the gurantee may be obtained for normal and bonafide renewal or enhancement of the limit after that date, if the past record of advance was satisfactory. One of the essential conditions of the guarantee is that the advances shall not be utilized for a purpose other than that for which it was granted.

Application for guarantee may be made before or after sanctioning an advance. The application should be, in the first instance, for one year, or in the case of a loan for fixed period exceeding one year, for the period of the loan at the option of the credit institution. The initial period of the guarantee may be extended for a further period of six months or a multiple there of at a time, but the total duration should not exceed seven years from the date from which the advance was first availed of.[1]

In the case of loans repayable on demand or at the end of a short period, the guarantee may be involved on the expiry of four months from the date of recall or the due date of repayment, taking into account any renewal of the loan. In respect of term loans involving a schedule of amortisation payments, the guarantee will become effective on the expiry of four months from the date on which installment fell due.

The charge for providing the guarantee cover will be at the rate of $\frac{1}{4}$ percent per annum of the maximum amount of advance or limit as sanctioned and is payable in advance to the Guarantee Organization for the period for which the guarantee cover is sought.[2]

---

[1] *Ibid.*, p. 24.

[2] Reserve Bank of India, "News and Notes," *Reserve Bank of India Bulletin* (June, 1960), p. 813.

Apart from providing the above assistance, one of the main pre-occupation of the Bank is to achieve coordination between the Corporations on the one hand and the banking institutions including the State Bank, the cooperative banks on the other. Not only this coordination has now been extended to the Industries Department of the State Government and the various organizations of the Central Government, such as Small Industrial Service Institutes, the National Small Industries Corporation, etc. In collaboration with the State Bank of India it formulated a Pilot scheme for financing of small industries.

Pilot Scheme of the State Bank of India

The State Bank of India took the initiative for coordinating the activities of the State Bank of India, Cooperative Banks, and State Financial Corporations in the provision of capital and credit to medium and small scale industries. A pilot scheme for the coordinated provision of credit was, therefore, drawn up in April 1956. The chairman at the first annual general meeting of the shareholders of the State Bank of India announced as follows:

> While the State Bank does not differentiate between small scale and large scale industries for purposes of providing credit, we feel that more positive efforts should be made to ascertain the credit requirements of small scale industries and to devise methods by which substantial assistance could be made available to them so as to place them on a firm footing.[1]

---

[1]Society for Social and Economic Studies, op.cit., p. 84.

The State Bank of India felt that the credit requirements of small industries cannot be adequately met unless there is a scheme which coordinates the activities of all the credit agencies. What is needed is a practical coordination at technical and managerial levels. For instance, a commercial bank may be inclined to grant short term credit to an industrial unit, provided it is satisfied on technical grounds that the unit has a profitable basis. In such an instance, the bank can obtain the assistance of the Small Industries Service Institute. Similarly a State Financial Corporation may require assistance for assessing the long term prospects of a unit; it may require the assistance of the Small Industries Service Institutes as well as the National Small Industries Corporation in the matter of the services they render to small industries. Accordingly this scheme was formulated under which State Bank's branches will provide these services to the various institutional agencies which have no branch organization to reach down to the towns and rural areas. Besides, this scheme provides for a system of supervised credit. To attain this not only the financial agencies will have to watch the progress of the borrowing units from the standpoint of business but also to call in the assistance of non-financial institutions to render technical, managerial and other aids to make the fruitful use of credit.

Under the scheme a borrower is required to apply to the Agent (Manager) of the State Bank of India for all his credit requirements. The application is dealt with by a local working group consisting of representatives of the agencies working with the scheme; this group refers the application to the appropriate agency depending upon the type of credit asked for. It has been provisionally agreed that for loans below Rs. 1,000 or 2,000, applications will be taken up by the Director of Industries under the Government's liberalized scheme for financing small scale industries, while applications over this amount are dealt with by the concerned State Financial Corporation if they are for medium and long term credit. However, application for loans for working capital purposes are ordinarily dealt with by concerned State Bank or the Cooperative Banks; if the accommodation required is both for short and long or medium term, the agencies concerned act in collaboration. Applications which the various agencies are not able to entertain normally are further considered in order to find out how best the needs of the borrower can be met.

In order to provide real benefits of the scheme to small entrepreneurs the State Bank liberalized its procedure and practices. Now it extends credit facilities to small industries at the pilot centres for working capital purposes against the pledge of raw materials and/or finished goods either on lock and key or factory type basis or against hypothecation of stocks. In appropriate cases, advances are also made against goods in transit and clean advances are also granted against guarantees. Provision has also been made, where possible for relaxation in respect of salaries of watchmen and go down keepers and in respect of margins, insurance and so on. These liberalized provisions are applicable only to a unit where products have an assured market e.g., goods manufactured against Government or other firms orders, or otherwise readily saleable. In cases where a unit cannot satisfy the Bank's requirements but undertakes technical or organizational improvements under the supervision of the representatives of the Department of Industries and/or the Small Industries Service Institute, grant of adequate credit facilities is favorably considered.

The interest charged by the State Bank on the loans under the Pilot Scheme is limited to the State Bank's prime advances rate which at present is $4\frac{1}{2}\%$ per annum. Interest is charged on a sliding scale the lower reach of which is applicable to advances against stocks under the bank's lock and key. The rates on factory type and hypothecation advances are slightly higher while the highest rate is applicable to clean credits.

The State Bank has entered into agency arrangements with the West Bengal, Uttar Pradesh, Andhra and Bombay State Financial Corporations to intensify the implementation of this scheme. Under this the Bank will act as their agent in collecting credit reports, disbursing loans, collecting installments etc. A similar arrangement is being negotiated with the Punjab Financial Corporation. The Bank has also entered into an arrangement with the National Small Industries Corporation Ltd. under which small scale industries securing orders from government departments, etc., through the auspices of the Corporation would be able to avail themselves advances from the Bank at all its branches against pledge of raw materials up to their full value, the portion of the advance representing the Bank's usual margin being guaranteed. It has been agreed upon that the guarantee in individual cases will not exceed Rs. 25,000 and that limit of its overall guarantee in individual cases will be restricted to Rs. 30 lakhs. The scheme has come into operation since January 1, 1959.[1]

The scheme which was initially introduced at 9 centres in 1956 was extended to 53 centres by the end of December 1958. It has been since extended to all the branches of the State Bank. The scheme has proved to be quite popular which is evidenced from the increase in number of loan applications received from 161 in 1956 to 986 in 1957 and to 2165 in 1958.[2] The amount of loan sanctioned by the Bank during the year 1960 increased by 81.8% from Rs. 3.78 crores to Rs. 6.86 crores.[3] The progress of the scheme is indicated in the table on page 69.

The scheme thus envisage full coordination of the activities between the different types of financial institutions and close cooperation between financial and non-financial institutions. For the success of scheme it is clear, that the Central and State Governments and the agencies and institutions sponsored and controlled by them will have to play an increasing role in evolving an implementation of this integrated scheme of credit.

Role of Foreign Capital

Before the achievement of Independence in 1947, foreign capital gave cause for bitterness and resentment in India. Indian

---

[1]Reserve Bank of India, <u>Seminar on Financing of Small Scale Industries in India</u>, Vol. II, <u>op.cit.</u>, p. 62.

[2]<u>Ibid.</u>, p. 61.

[3]<u>Overseas Hindustan Times</u>, December 15, 1960, p. 2.

masses looked at foreign capital with suspicion and were of the opinion that foreign capital would get a grip over the economic life of the country and hold it perpetually in bondage. Since India is a free country now, there is a change in attitude of its people toward foreign capital. Foreign capital now can not lead to political domination or interference with the working of Indian democracy and it can not get discriminatory advantages in preference to Indian enterprise.

TABLE 10

PROGRESS OF THE PILOT SCHEME OF STATE BANK OF INDIA

As on 31st December 1956	Bengal Circle	Bombay Circle	Madras Circle	Delhi Circle	Total (Amt. in Thousand Rupees)
No. of Centres	3	3	3	-	9
No. of Applications Sanctioned	-	3	22	-	25
Amount Sanctioned	-	505	560	-	1,065
As on December 1958					
No. of Centres	5	12	26	10	53
No. of Applications	101	105	238	252	696
Amount Sanctioned	3044	5558	6797	8310	23,736
As on 30th June 1959 All Branches of the Bank					
No. of Centres					
No. of Applications	165	137	281	396	979
Amount Sanctioned	4733	5202	8310	12034	30,279

[a]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India (Bombay: Reserve Bank of India, 1960), p. 62.

The scheme of national economic reconstructions requires enormous capital. Indian capital is not forthcoming and is not equally developed. Foreign capital is therefore urgently wanting, which may be used in the process of industrialization and enrichment of the country. Of course, no country can progress just by external help. If a nation wants to make progress it has to shoulder the burden itself. So far India is concerned "that effort is being made and will be made."[1]

The argument in favor of foreign capital is further strengthened by the acute need for increasing the volume of employment. The rate of capital formation that would be feasible with domestic resources would not merely keep down the rate of increase of income but would make it impossible to solve the problem of unemployment within a reasonable period of time. Thus foreign capital is necessary for relieving unemployment in the country, as the main cause of unemployment is the idleness of resources caused by the paucity of capital.

The Government of India's present policy towards foreign capital is that it welcomes foreign capital in desired fields and its investment in industries which are considered to be of national importance. Generally permission is not granted for investment of foreign capital in purely financial, commercial or trading concerns except in such cases where technical know how is an essential aspect

---

[1]Jawahar Lal Nehru, "World Bank - IMF IFC Annual Meeting," Asian Recorder (October, 18-24, 1958), p. 2297.

of the trading activities. It is no doubt the desire of the Government that the majority interest in ownership and effective control of the undertaking should remain in Indian hands, but exceptions can be made in cases where Indian capital is not forthcoming or the schemes are in national interest. Further, it is expected that adequate provision will be made by the foreign enterprise for the training of Indian personnel for technical and administrative posts in which foreign capital is involved. Frequently, this is made a condition on which foreign capital investment is permitted.

Prior approval of the Reserve Bank of India, Exchange Control Department, is however, necessary for entering into an agreement for payment of royalties, technical changes etc., to non-Indians. Approval is generally given if the rate is reasonable in relation to the benefits that are expected to accrue. Foreign investors are allowed full facilities to remit the dividends to the country of their residence. There is no restriction on the repatriation of foreign capital invested in India from the countries of sterling area and from Norway, Sweden or Denmark.[1]

As regards to foreign technical collaboration, any firm desiring to have it will have to contact the foreign firm directly and arrive at a draft agreement regarding capital participation, amount of percentage of royalty or share of profit etc. The draft terms of agreement

---

[1] Ministry of Commerce and Industry, Information for Small Industrialists, op.cit., p. 22.

may then be sent to the Ministry of Commerce and Industry for approval. The Ministry, in turn may contact the Development Commissioner (Small Scale Industries) or the Development Wing, as the case may be, with regard to the necessity of technical collaboration for items proposed to be manufactured.

It is clear from the above discussion that foreign capital has to play a vital role in the financing of small scale industries and providing machines and raw materials. It is encouraging to note that the United States and Japanese capital is taking interest in providing these facilities to small industries.

CHAPTER IV

PRIVATE AGENCIES

The private agencies financing small scale industries consist of commercial banks, cooperative banks and the indigeneous bankers. Among these Commercial Banks present the greatest potentiality for providing financial assistance to this vital sector of Indian Economy. Though it is true that the Government is trying to provide assistance to small industries both in financial and non financial fields yet unless the Commercial Banks play the role that they should, any remarkable development of small industries can not be expected.

Commercial Banks

Commercial Banks have so far confined their activities to a very large extent to the provision of short term loans for working capital on the security of readily realizable assets. Statistics reveal that the average industrial advance in a Commercial Bank runs between Rs. 1.75 lakhs and Rs. 2.5 lakhs. It is estimated that only ten per cent of the total Commercial Banks industrial advances go to small scale industries.[1] These figures compare very poorly with the figures of loans granted by Commercial Banks to small industries in United States and Japan.

---

[1]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. I, op.cit., p. 95.

In the United States of America twenty two percent of the Commercial Bank's loans are granted to small businesses. In the case of smaller Banks their percentage is as high as eighty. In Japan fifty six percent of all loans granted by the local banks and about twenty six percent of all loans granted by the city banks were made to small business.[1]

The main reason for this unimpressive achievement of Indian banks is the paucity of eligible borrowers. A large majority of the owners of the industries lack management ability and technical skill. They have no proper scheme of working. Their knowledge of the industry is inadequate. They have no method of keeping accounts and records.

Besides this, the Banks in India do not have facilities for credit investigation and investigation of loan applications. A system has yet to be devised whereby the cooperation of the small local banks can be enlisted in implementing the scheme for providing adequate credit facilities to small scale industries. The scope of guarantee provided by the Reserve Bank of India is also limited. All these factors forced the commercial banks to be conservative in their lending policy to small industries.

But so long the banks were satisfied as regards entreprenure's means and credit worthiness for the limit applied for, his competence and integrity, his attitude towards adoption of quality standards, modernisation techniques, his ability to repay the advance, the future

---

[1] _Ibid._, p. 95.

prospects of the industry and the nature and value of the security offered no distinction was made by them between small and large industries.

There has been suggestions from some quarters that the banks should lower their standard of eligibility in order to render effective assistance to them. But this suggestion is not very practicable because the banks do not lend their own money. The money belongs to their depositors and they are the trustees of their depositors funds. As such they have to take safety measures and do business strictly on business lines. What the Commercial Banks lack is the initiative to take such measures, which will improve other aspects of business, will educate the small businessman in the modern business methods. Supply of credit should go hand in hand with the measures to improve the business conditions. Credit as Dr. Bartel of the Ohio State University describes is like a flower that blooms when the conditions are just right. It can be brought forth only by a businessminded community where institutions are based on higher qualities of man-honesty, lawfulness and intelligence. The type and extent of credit facilities depend mainly on their integrity.[1]

To measure the extent of the assistance provided by Commercial Banks the Reserve Bank undertook a survey of 74 scheduled banks with 556 branch offices and 151 non scheduled banks with 224 branch offices on September 30, 1957. For the purpose of survey small scale business

---

[1]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. I, op.cit., p. 98.

was defined to include a propriety concern or a partnership or public or private limited company whose assets were less than Rs. 5 lakhs and medium scale business as those with total assets between Rs. 5 to Rs. 20 lakhs.

The overall figures of secured and unsecured advances amounted to Rs. 56.7 crores and the projected figure for the entire banking system amounted to Rs. 256.8 crores and non scheduled banks Rs. 15.00 crores.[1] Nearly 80% of all the credit made available to small concerns was secured; the portion of secured advances was more or less same both in case of credit to be corporate and non corporate sectors.[2]

TABLE 11

ADVANCES OF COMMERCIAL BANKS TO CORPORATE AND NON CORPORATE SECTORS (IN LAKH OF RUPEES)

	Secured	Unsecured	Total
Corporate Sector (Public and Private Limited)	4444	962	5406
Non Corporate Sector	16300	3977	20277
Total	20744	4939	25683

[a]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. II (Bombay: Reserve Bank of India, 1960), p.67.

[1]Reserve Bank of India, Seminar on Financing of Small Scale Industries in India, Vol. II, op.cit., p. 67.

[2]Ibid., p. 66.

The State wise analysis of estimated advances showed that a large portion was in Bombay State (Rs. 77.00 crores) followed by West Bengal (Rs. 38.6 crores) Madras (Rs. 22.7 crores) Mysore (Rs. 21.5 crores) Uttar Pradesh (Rs. 14.3 crores) and Punjab (Rs. 13.9 crores). From the above figures it is evident that at present Commercial Banks are playing only a limited role in providing finance to small industries. It is hoped that with all the efforts that the Government of India is making to improve the business conditions in the small business sector, will encourage them to play their due role in near future.

Cooperative Banks

Another important source of credit to small scale industries in the private sector is the cooperative banks. These types of the banks can be classified into three kinds, namely, the State Cooperative Banks and the primary credit societies.

The State Cooperative Banks which operate at State Level extend loans to the Central Cooperative Banks and through them to the primary cooperative societies, both on long and short terms. Their funds are composed of deposits they received from the Central Cooperative Banks established in each state and from the general public and the money they borrow from the Reserve Bank of India.

The Central Cooperative Banks receive deposits from the Primary Cooperative Societies and others and with this fund together with the money borrowed from the Government and Commercial Banks as source, they accommodate chiefly the Primary Cooperative Societies with short and medium term loans.

The Primary Cooperative Societies are divided into two kinds one for agriculture and the other for industries. They make short and medium term loans to their members with the resources consisting of capital contributions, deposits and borrowed money.

In addition, urban banks by the cooperative formula found in the urban districts and similar ones offer petty loans to the populace and loans to merchants. These systematized banking institutions have a long history in India and are a great financial power having been supported, for one thing, by cooperative movement. On the recommendation of the Sub Committee appointed by the Small Scale Industries Board in 1956, 400 urban banks were selected to implement a scheme of financing small scale industries. The scheme envisaged State participation in the share capital of selected urban banks, Government guarantee of losses in respect of principal and provision of a limited sum by the Government to be put at the disposal of selected urban banks for being disbursed as loans. However, this scheme has not proved very successful and the urban banks have confined their activities mainly for providing facilities only to agricultural units. Table 12 on the following page illustrates the general position of the cooperative structure in 1957-58.

As regards non agricultural credit societies, their total number in 1957-58 came to 10,430 with a membership of 36.74 lakhs. Their working capital amounted to Rs. 102.53 crores as at the end of June 1958. The loans advanced by them during 1957-58 came to Rs. 87.34

crores.[1] According to another estimate the cooperative banks had lent Rs. 2 crores to industrial cooperative societies other than weavers by the end of June 1958.[2]

TABLE 12

GENERAL STRUCTURE OF THE COOPERATIVE SECTOR
(1957-58)

Type of Society	No.	Membership (In Thousand)	Working Capital (Rs. in Lakhs)	Advanced Loans (Rs. in Lakhs)
State Cooperative Banks	21	32	1,09,14	2,19,01
Central Cooperative Banks	418	292	1,47,00	1,59,86
Primary Agricultural Credit Societies	166543	1,02,21	1,33,75	96,08

[a]Reserve Bank of India, Seminar of Financing of Small Scale Industries, Vol. I (Bombay: Reserve Bank of India, 1960), p. 99.

Loans were mostly given to cooperative societies, but advanced to industrial cooperatives are quite negligible except for those to handloom cooperatives. The capital of all these cooperatives societies is small and the maximum amount of loans available to them is set at ten times the total of paid up share capital and reserve funds which

[1]Ibid., p. 99.

[2]Government of India, Central Small Industries Organization Report for 1959-60, op.cit., p. 71.

prevented them from doing things on an extensive scale. The advances made to the industrial cooperatives by cooperative banks at the end of 1957 are as follows:

TABLE 13

ADVANCES MADE BY THE COOPERATIVE BANKS TO THE INDUSTRIAL COOPERATIVES AS ON DECEMBER 31, 1957

(In Thousand of Rs.)

Handloom Weavers	28,258
Handicrafts	422
Small Scale Industries	49
Sericulture Coir	1,381
Khadi and Village Undustry	621

[a]Government of India, Report of the Japanese Delegation on Small Scale Industries (New Delhi: Ministry of Commerce and Industry, 1960), p. 67.

The Reserve Bank of India gives loan to the cooperative banks at an interest rate of 4.5% per annum which are lent by the later to the handloom Weaver's cooperatives and others at a specially low interest rate of 2.5%. The deficit consisting of the lower interest on loans and of cooperative bank's expenditure is pieced out with Government subsidies.

Losses from loans under this system are made good up to 5% of the total sum by Government. For this the Central Government disburses 50%, State Governments 40%, leaving the remainder 10% for the cooperative banks to cover. Loans of this type amounted to Rs. 13,019,000 for the year 1957-58. In Bombay State a special loss compensation system has been adopted for the loans given to industrial cooperatives. The main provisions of this system are: First, in case of advances by the Central Financing Agency to those cooperatives which prove to be bad debts, the assets of Cooperatives will be compensated by the State Government and one third by the Central Financing Agency. Secondly, in the case of Weaver's Cooperative Societies, the loss will be compensated by the Central Government and the State Government up to 5% of the total amount of loans, 50% of the loss to be compensated by the former and 40% by the latter Government and only the remaining 10% left for the Central Financing Agency concerned to dispose off. Lastly, if the Central Financing Agency gives the credit to industrial cooperative at an interest rate specially lower than the normal rate, supplementation of the interest differences will be granted to the Agency up to the amount not exceeding 3% of the interest.

One of the recent development in cooperative industrial financing is the establishment of industrial cooperative Banks in Bombay, Mysore and Uttar Pradesh. However, these have not met much success and the general opinion is that such a separate financial structure for industrial cooperatives will be wasteful and unnecessary in view of the fact that the normal cooperative credit structure itself is being strengthened and recognized and can finance industrial cooperative societies.

To sum up, the financing of small scale industries by cooperative banks broadly covers two aspects, viz., the provision of funds for small scale industries organized on a cooperative basis and the provision of funds to industrial entreprenures and artisans engaged in small scale industries. But the majority of their loans goes to cooperatives. As regards the practice of the cooperative banks in urban districts their practices are quite different. The Annual Report (1957-58) of the Saraswat Cooperative Bank in Bombay gives a very good idea about such practices in the following words:

> Out of the total of 777 advances granted during the year as many as 473, this is to say, 60 percent, were for the purposes of repayment of debts, sickness, domestic, marriage, and education. The total amount advanced under this group was Rs. 372,805 and the average loan per member worked out to Rs. 789. The remaining 304 advances amounting to Rs. 2,886,416 were granted for satisfying the needs of the small scale industries and small trades. The average amount of advances under this group amounted to Rs. 9,827.
>
> Advances granted to small traders and industrialists were mainly for meeting their working capital needs. It would be interesting to note that the Bank has been financing the following types of small industries: Printing, Pharmaceuticals, Fisherres, Building, Bakery, Glass, Fountain Pen, Manufacture of components of air-containing plants and Bakelite Caps and so on . . . .[1]

Indigenous Bankers

The indigenous shroffs or bankers also play a significant part in providing working capital to small entreprenures. In fact at present due to comparatively ineffective role played by commercial banks, they are the only source which provide the above facility to the small entreprenuer. It is estimated that they provide 70 to 75% of the working and equity capital to small businessmen. Although it is true that their importance is on a decline with the development of institutional credit.

---

[1]Quoted in Government of India, Report of the Japanese Delegation on Small Scale Industries, op.cit., pp. 68-69.

The small industrialist resorted to the indigenous banks partly out of necessity and partly out of preference. He had to go to the indigenous banker because he could not get accommodation from any other source. In the rural areas capital is extremely unorganized and as a matter of fact much capital is not available. The money lender acts as the oasis in the vast desert of extra-vagence. He went to the indigenous banker also because the latter was well acquainted with his means, character and trading methods. Besides the procedure of borrowing money from the indigenous banker was very simple without going into necessary formalities as in the case of a joint stock bank. The indigenous banker lent on personal knowledge and obtain a simple bond relying on his own acuteness to forestall a possible failure on the part of his debtor. As a result he has to charge a very high rate of interest which varied from 12 to 18 percent and was sometimes even as high as 24 percent.[1] According to the Punjab Banking Enquiry Committee, the Punjab weavers had to pay 12½% to 37%.[2] The Shroff Committee pointed out that some of the indigenous bankers like the Multani Shroffs make advances to small scale and medium scale industries for purposes of working capital. The amount of loans advanced by these Shroffs is estimated to be about Rs. 20 crores at any time but it is not known how much of this represents industrial advances.[3]

---

[1]Nabagopal Das, Industrial Enterprise in India (Bombay: Orient Longmans, 1956), p. 47.

[2]K. K. Dewitt, Indian Economics (Delhi: S. Chanda Co., 1951), p. 298.

[3]Society for Social and Economic Studies, op.cit., p. 51.

Similarly the representative of Bombay's Shroff Association stated that small industries were obtaining considerable credit from their members.[1]

From the above analysis it is clear that due to reluctance on the part of the institutions to extend credit to small industrialists and also on the part of the latter to borrow from the former, the indigenous bankers have so far proved as the main source for equity and working capital. But now they are losing their old position due to the very high rate of interest charged by them, their unfair trade practices and development of instititional sector which is providing increasingly larger credit to small industries.

---

[1] *Ibid.*, p. 51.

CHAPTER V

APPRAISAL AND RECOMMENDATIONS

The purpose of the writer in making this study was to study the capital requirements of the small scale industries, and the various agencies providing it and what can be done to improve the present situation and develop this very important sector of Indian economy. The study has led to two general conclusions.

Firstly, there are only few medium and small scale enterprises which are in a position to offer adequate security or, whose proprietors being persons of fairly substantial means, can provide the requisite personal guarantee. They are in a position to obtain long term loans capital from special financial institutions and to get in some cases cash credit facilities or key loans for working capital from commercial banks. By and large, however, entrepreneurs whose industrial undertakings have capital assets of less than Rs. 1 lakh, or even higher up to Rs. 5 lakhs, and also have no other personal assets to provide a backing to their financial guarantee for long term finance, are unable to fulfill the conditions demanded by credit institutions and therefore their requirements are at present being served very partially only by special agencies set up for this purpose by Government.

Secondly, the present standards of commercial banks and other credit institutions are based on tradition which primarily relates to commercial transactions, and industrial credit is given largely on security which is easily realizable. The position, therefore, is that, on the one hand, there are hundreds of small and medium size industries which need long term capital and short term credit and whose requirements are met by private money lenders or indigenous bankers at exorbitant rates of interest which add to their cost of production; on the other hand, their are credit institutions in the country which are in a position to extend financial assistance to this very important sector of industry but which, working on the basis of traditional standards, are hindered from entering into this field.

When the country is embarking on a program of industrial development with special emphasis on the needs for development of medium and small industries, some means should be devised to provide capital of the types they need. It is suggested that the approach should be on the following lines. In the first place, it is necessary to make available to the medium and small industries those non-financial aids and facilities--technological, managerial, scientific and marketing--which would strengthen their competitive position. The ultimate aim of the Government program should be such which will make the small scale industries to stand on their own foot. The present Government program gives an impression that the Government is subsidising too much, which in the long run may ruin all individual initiative and enterprise spirit. They might become too much dependent on Government. What is necessary is, however, that these enterprises should be run and developed by the initiative and integrity of private industrialists themselves. Another improvement needed in the Government attitude is that it should not care only for the size of the assistance but should see that it is provided at the right time without unnecessary delays caused due to too formal procedure.

Financial assistance should be provided through institutional channels so that the small entrepreneurs can get the long term loan capital and working capital on terms which are approximately equal to those available to large scale entrepreneurs. This can be done by coordinating the activities of the existing financial institutions and arranging the provision of long term capital and short term credit through an integrated system of credit. State Bank's scheme of integrated credit is the right step to achieve this. What is needed is to further widen its scope to cover the commercial banks and cooperative banks also under it.

As the problem of credit and finance for small industries is vitally related to problems of availability of raw materials, technical skills, managerial ability, and marketing, it is, therefore, essential to develop an overall approach to these different aspects of the problem of development, of which provision of credit and finance is only one of the essential functions. When the non-financial aids are made available in large measure, the organization of medium and small scale industries is improved, markets for their products are expanded on a stable basis, their competitive position will be strengthened and thereby their credit worthiness will be increased.

To solve the problem of financing small scale industries, it is absolutely essential that there should be a positive change in the outlook and approach of financial institutions towards small scale industries. Generally firms with capital of less than Rs. 1 lakh are considered not to be sufficiently credit worthy by them. The problem in essence is to make these small industrial enterprisescredit worthy. It is recommended that units requiring financial assistance should be graded as (a) credit worthy, (b) partially credit worthy, and (c) non credit worthy. They should be judged by the three principal elements of an undertaking: (i) the entrepreneur or craftman (ii) his tools and equipment and (iii) the job he is doing. Before assistance is provided it must be determined whether the enterprise has already succeeded or at least that it is likely to improve its prospects if the required financial and non financial aids are forthcoming. Such a reorganization of the small scale sector is a big task and will require an improvement program on a wide scale. Finally, after these steps are taken, there is the important problem of reorientation of existing credit standards. It should be stated very clearly that it is neither in the interests of the credit institutions nor in those of the borrowing units in any way to lower the standards. But this does not mean that existing business standards which each institution regards as essential for safeguarding its business interests, are perfect and require no modification. In the sphere of industrial credit the concept of security needs to be redefined. It is suggested that as regard to the propositions relating to medium and small scale industries, important consideration ought to be not fairly sound current financial position and a good record of performance of the unit concerned in terms of its earning capacity but also the prospects of improving its financial position in the future. In this way the borrower would be judged whether he is credit worthy or not, not so much in terms of realizable value of his assets as in terms of his ability to do the job and earn a profit.

Commercial banks should also decentralize the authority for granting short term credit requirements. This can be achieved by delegating powers to their branch managers. The head office of a bank should formulate the criteria and rules of procedure for granting loans and advances to small industries and should then vest the branch managers with the necessary powers to sanction loans on their own initiative.

As regards the Reserve Bank it is necessary that it should change its attitude while inspecting the commercial banks. Most of the banks are reluctant to grant credit to small units viewing possible objections from the Reserve Bank's Inspector. The Reserve Bank should develop a confidence among the banks that it is there to protect and guide them and not to exploit them. Besides, in order to increase liquidity of advances the Reserve Bank should further liberalize the bill market scheme by reducing the minimum limit in respect of individual bills.

For the cooperative sector, there should be coordination between the State Governments, including industrial associations and regional industrial cooperative banks and urban cooperative banks for securing the financial needs of processing and industrial cooperative concerns. Likewise to meet the requirements of propriety and joint stock types of industrial cooperatives the State Governments, the State Financial Cooperations and the State Bank of India and other commercial banks should coordinate their activities. What is required is that the needs of small units not ordinarily exceeding Rs. 10,000 may be met by departmental agencies of Government, for this kind of aid is more in the nature of a grant of loans without security. The State and its associate institutions should concentrate on providing technical, management, marketing and other services to small scale industries and employ the agency of financial institutions for granting capital and credit to these enterprises though in the initial stages the State would give direct financial assistance to the very small units requiring loans up to Rs. 10,000.

BIBLIOGRAPHY

Books

Das, Nabagopal. Industrial Enterprise in India. Bombay: Orient Longman, 1956.

Dewett, K. K. Indian Economics. Delhi: S. Chand and Co., 1951.

Federation of Indian Chamber of Commerce and Industry. Small Scale Industries Procedures and Facilities. New Delhi: Caxton Press Ltd., 1960.

Reserve Bank of India. Seminar on Financing of Small Scale Industries in India. Vol. I and II. Bombay: Reserve Bank of India, 1960.

Society for Social and Economic Studies. Capital for Medium and Small Scale Industries. Bombay: Asia Publishing House, 1959.

Stades, F. J. N. Report on Small Industry in India. New Delhi: Hindu Union Press, 1960.

Stepanek, Joseph E. Small Industry Advisory Services. Stanford: Stanford Research Institute, 1960.

Public Documents

Government of India. Economic Surveys and Information Service. New Delhi: Ministry of Commerce and Industry, 1960.

________. First Five-Year Plan. New Delhi: Planning Commission, 1951.

________. Report of Sub-Committee on Industrial Estates. New Delhi: Government of India Press, 1960.

________. Second Five-Year Plan. New Delhi: Planning Commission, 1955.

________. Second Five-Year Plan, Progress Report, 1958-59. New Delhi: Planning Commission, 1960.

________. Small Scale Industries Organization Report for 1959-60. New Delhi: Ministry of Commerce and Industry, 1960.

________. Small Scale Industries; Programme and Progress. New Delhi: Ministry of Commerce and Industry, 1960.

________. Small Scale Industries Programme of Work for the Third Five-Year Plan. New Delhi: Ministry of Commerce and Industry, 1959.

________. Third Five-Year Plan, A Draft Outline. New Delhi: Planning Commission, 1960.

Other Sources

India Economic Newsletter. I (November, 1958) 3.

Nehru, Jawahar Lal. "World Bank IMF IFC Annual Meeting," Asian Recorder. (October 18 and 24, 1958).

Overseas Hindustan Times. September 15, 1960.

Reserve Bank of India. "News and Notes," Reserve Bank of India Bulletin. (June, 1960) 841.

________. "Report of the Central Board of Directors of Reserve Bank of India for the Year July 1, 1959 - June 30, 1960," Reserve Bank of India Bulletin. (August, 1960) 1121-22.

Shekhar, M. Chandra. "Development of Small Industries," Hindustan Times. (January 26, 1961) 8.

Venkatappiah. "The Role of the Reserve Bank of India in the Development of Credit Institutions," Reserve Bank of India Bulletin. (January, 1961).